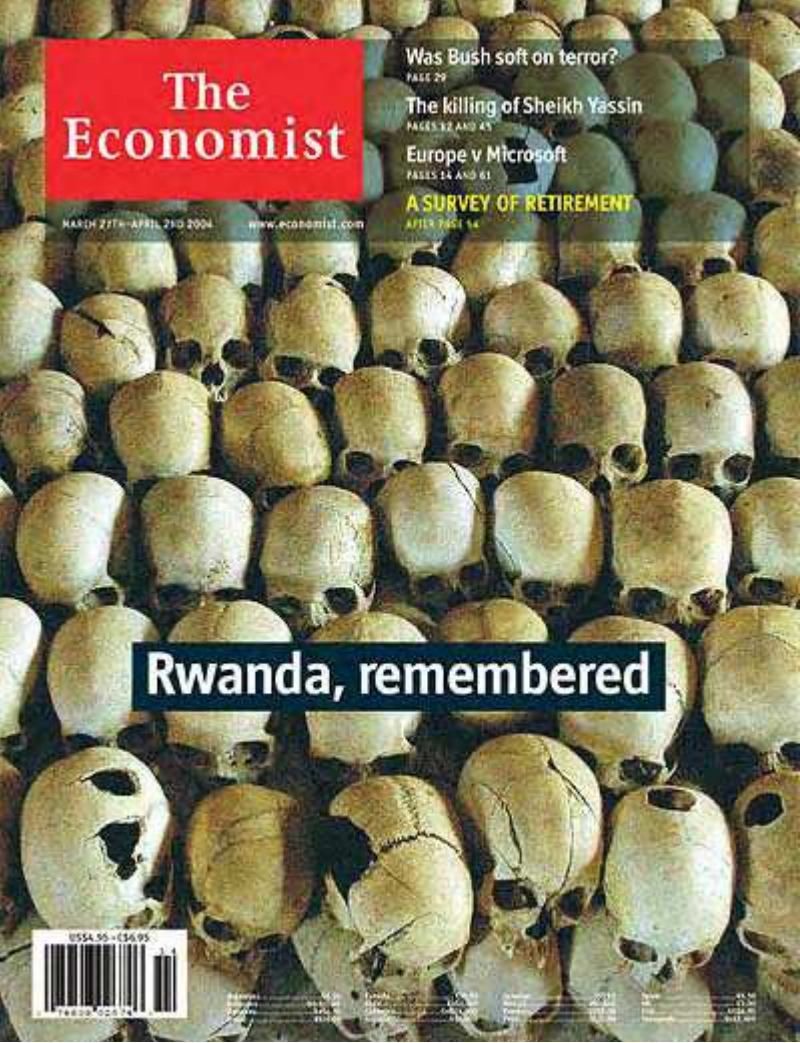
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Politics this week

Mar 25th 2004
From The Economist print edition

Assassinated

AP

Israeli forces fired missiles from a helicopter to assassinate **Sheikh Ahmed Yassin**, the wheelchair-bound leader of the Palestinians' main Islamist movement, Hamas, as he came out of a mosque at dawn in the Gaza Strip. Though Hamas has carried out most of the suicide bombings against Israeli civilians, the action provoked a wave of condemnation across the world. The American administration fell short of direct criticism, saying it was “deeply troubled” by Israel's action.

See article

The **Saudi** authorities arrested 13 prominent liberals and kept six of them in prison.

See article

Germany's president, Johannes Rau, cancelled a visit to **Djibouti** after his intelligence services gave warning that Islamist terrorists might try to assassinate him.

Tony Blair flew to Tripoli for a meeting with **Libya's** leader, Muammar Qaddafi. Britain's prime minister is leading international efforts to restore normal relations with Libya as a reward for its undertaking to give up weapons of mass destruction.

See article

America and Britain asked the UN Security Council to approve a resolution to criminalise the transfer of **weapons of mass destruction** and the means to make them to terrorists or any “non-state actor”.

Three weeks before a general election, **South Africa's** president, Thabo Mbeki, upset many by joking that he would beat his sister if she fell in love with an opposition candidate. Nonetheless, his party, the African National Congress, is expected to win easily.

Investigating terror

An independent commission investigating the **September 11th** attacks heard evidence from officials in the Bush and Clinton administrations. All stoutly defended their policies towards terrorism. Meanwhile, Richard Clarke, George Bush's former adviser on counter-terrorism, severely criticised the current administration, claiming that Mr Bush ignored warnings about impending al-Qaeda attacks, and then put pressure on officials to link the attacks to Iraq.

See article

A government report warned that **Medicare's** finances had “taken a major turn for the worse” over the past year. The fund, which covers elderly and disabled Americans, is projected to be empty by 2019, seven years earlier than estimated last year.

See article

The Supreme Court heard arguments on whether the phrase “under God” should be kept in the **pledge of allegiance**. A Californian atheist objected to his daughter reciting the phrase at school and claims that it violates the constitutional separation of church and state.

A snub from the regions

In regional elections, voters in **France** blew a raspberry at the centre-right government of President Jacques Chirac, prompting speculation that, after the second round, he may sack his prime minister, Jean-Pierre Raffarin. The Socialists did better than expected; the far-right National Front scored about 15%, less than in 2002.

See article

Ahead of a European Union summit on March 25th-26th, strong hints emerged that the current EU president, Ireland's Bertie Ahern, would resume the negotiations on the draft **EU constitution** that were aborted in December. An agreement on the constitution may now be reached before the next summit in June.

As expected, the **Cyprus** unification talks between Greek-Cypriot and Turkish-Cypriot leaders failed. The Greek and Turkish prime ministers will now join in; if they too fail, the UN secretary-general, Kofi Annan, will take over and put his unification plans to referendums in both parts of the island on April 20th.

The country's top admiral attacked the safety of **Russia's** nuclear navy. Vladimir Kuroyedov declared that an advanced nuclear-powered cruiser, *Peter the Great*, could blow up at any moment. He later retracted the claim, though he insisted that the navy was short of money.

AP

Narrow victory

Taiwan's president, Chen Shui-bian, was re-elected by a margin of just 0.2%. There were calls for a recount, or even for the election to be invalidated. The opposition said that an assassination attempt, in which Mr Chen was slightly wounded, had given him an unfair sympathy vote.

See article

Malaysia's ruling coalition won a landslide victory in a general election. It won 198 of the 219 seats, and now controls 11 of the 12 state legislatures.

See article

Despite optimistic reports that the Pakistani army had pinned down **al-Qaeda's** second-in-command during fighting in a remote tribal area on the border with Afghanistan, no top terrorists were captured. A mile-long secret tunnel was discovered.

As many as 200 people were reportedly killed in fierce fighting in **Nepal**.

The aviation minister of **Afghanistan**, who was also the son of a warlord, Ismail Khan, ruler of Herat, was assassinated there.

See article

Japanese police arrested a group of Chinese activists who landed on one of the disputed **Senkaku** islands.

India won a thrilling one-day cricket series against **Pakistan**. Both countries have praised each other's sportsmanship, and relations between the two have improved markedly.

Lacking intelligence

Peru's government resolved to get rid of its intelligence services. The prime minister said that too many agents had ties with the former president, Alberto Fujimori, and a disgraced former chief spy, Vladimiro Montesinos. The most recent head of the agency—the seventh since 2001—is under investigation for corruption and has stepped down.

Jean-Bertrand Aristide, **Haiti's** former president, was offered asylum in Nigeria. The ousted president, who fled Haiti in late February, first found refuge in the Central African Republic before flying to Jamaica.

In **El Salvador**, the right-wing Arena party won its fourth presidential election since the end of the country's civil war. Tony Saca, a former sports commentator, beat a former guerrilla leader.

EPA

See article

Venezuela's Supreme Court reversed an earlier decision that opened the way for a referendum to recall President Hugo Chávez. The opposition accused the president of manipulating judges.

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Business this week

Mar 25th 2004
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Punishing Microsoft

Microsoft finally learned of the penalties it faces from the European Commission for its alleged anti-competitive behaviour. The software giant was ordered to pay a fine of *euro*497m ($612m) and offer a version of Windows without its media software included. Microsoft plans to appeal.

See article

The music industry took another swipe at **piracy** by suing 532 suspected illegal file-sharers in America. In an attempt to frighten typical transgressors, many of the lawsuits targeted those using university networks to distribute copyrighted material.

Meanwhile, **Wal-Mart** launched an online-music service, Music Downloads. Customers will be able to download music legally at a price that significantly undercuts big competitors.

An American judge rejected a jury's award against **Tyson Foods** of $1.3 billion in damages. In a case brought by 35,000 ranchers, the world's biggest meatpacker was found to have manipulated cattle prices, but the judge ruled that the award “clearly overstates” Tyson's liability.

Carnival Cruises exceeded expectations with a profit of $203m in the quarter to the end of February. The world's biggest cruise business said that holiday-makers were taking to the sea again now that the after-effects of the Iraq war had worn off.

Nickel and mines

BHP Billiton, the world's biggest mining company, said that it would invest $1.4 billion to boost nickel production in Australia to cash in on soaring demand for the metal from China. Nickel prices hit a 15-year high earlier this year.

Belgacom launched one of Europe's biggest initial public offerings for some time. The dominant Belgian telecoms operator raised around *euro*3.3 billion ($4.0 billion) as investors clamoured for shares. Belgium's government will still retain a majority stake in Belgacom.

Germany is still waiting for its first new share offering since 2002. **Siltronic**, a maker of silicon wafers, shelved its IPO a week after X-FAB, a chipmaker, called off its issue.

An Italian judge rejected prosecution attempts to “fast-track” the trial on market-rigging charges of **Parmalat** employees and others involved in the financial scandal that engulfed the dairy-goods firm. A trial may have to wait for some six months.

Novartis said that it was prepared to counter a hostile *euro*46 billion ($55 billion) bid for France's Aventis from a rival French drug firm, Sanofi-Synthélabo. But the Swiss drug company said that it would only go ahead if Aventis asked it to and the French government, which has openly supported the creation of a national champion, did not get involved. But the government seemed intent on scuppering an offer from Novartis.

See article

Royal Dutch/Shell's travails worsened after America's Department of Justice began investigating the

circumstances surrounding the overstatement of the Anglo-Dutch oil giant's reserves. Shell—also under investigation by regulators in Britain and the Netherlands—could now face criminal charges.

Coca-Cola shelved plans to launch its Dasani bottled water across Europe shortly after it was forced to recall all 500,000 bottles in circulation in Britain. Levels of bromate, a potentially harmful chemical, were found to exceed legal limits in the water.

Fat profits

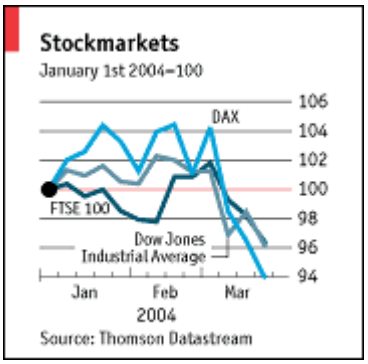
Goldman Sachs reported a record profit of $1.3 billion in the latest quarter, nearly double what it made a year ago. Healthy mergers and acquisitions business and share trading helped the investment bank to beat analysts' expectations comfortably.

An internal investigation at **Putnam Investments**, a big American mutual fund, concluded that the firm's former chief executive, Lawrence Lasser, and other top officials knew of trading abuses but had been slow to inform the trustees once the problems came to light. Putnam reached a partial settlement with the Securities and Exchange Commission last year but faces further heavy punishment.

A World Trade Organisation panel ruled that America's restrictions on **online gambling** broke the trade club's rules. The case was brought by Antigua and Barbuda, a Caribbean state that is home to some 30 online betting operations.

Fear in the markets

Stockmarkets around the world continued to slide. The Dow Jones Industrial Average, DAX and FTSE 100 all hit lows for the year as investors worried about the sustainability of the recovery of the world economy and renewed threats from terrorism in the aftermath of the recent bombings in Madrid.



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Lessons of a genocide

Rwanda, remembered

Mar 25th 2004
From The Economist print edition

Ten years after Rwanda's genocide, what has the world learned?

Get article background

AFP

IT WAS the purest genocide since 1945, and perhaps the single greatest act of evil since Pol Pot turned Cambodia into a killing field. But how many people can name any of the perpetrators of the Rwandan genocide of 1994? The alleged mastermind, Colonel Théoneste Bagosora, who is now on trial, is not exactly a household name. The world has not forgotten Rwanda's tragedy, but it has not examined it in much detail, either. And there are still lessons to be learned.

Outsiders often assume that the genocide sprang spontaneously from primeval ethnic antagonism. On the contrary, it was planned over many months—Mr Bagosora sketched out part of the programme in his appointment book in early 1993. Militias had to be organised, machetes bought and distributed, and Hutu peasants persuaded, through skilful propaganda, that all Tutsis were their enemies. The opportunity came on April 6th 1994, when Rwanda's Hutu president was assassinated. Mr Bagosora and his co-conspirators seized control of one of the world's most authoritarian states, the whole apparatus of which was then turned to mass murder.

Not primeval, just evil

The assumption that the genocide erupted amid chaos made it easier for western policymakers at the time to shrug that little could be done. They were wrong. The small gang of Hutus who organised the genocide were rational men in pursuit of a rational—albeit evil—objective. They wanted to stay in power, and they harnessed ethnic hatred as a means to that end. They could have been deterred.

Their regime was heavily dependent on aid. If donors had made it clear that aid would cease for ever unless the genocide ceased immediately, the *génocidaires* would have found it much harder to persuade the rest of the Hutu elite to go along with their plan. During the genocide, requests from the French government, for example, not to attack a hotel where many prominent Tutsis had sought sanctuary, brought immediate results. Sterner warnings might have had a calming effect.

Failing that, western powers could have used force to end the killing. Romeo Dallaire, the UN's soldier on the spot, said it would have taken only 5,000 troops. Others think more would have been needed, but most agree that a determined military intervention would have saved many lives. And it could have been done. Instead, the UN withdrew its tiny presence. No one even jammed the radio station that urged on the killers with slogans such as “the graves are not yet full.”

Ten years on, some lessons have been learned. Rwanda's Tutsi-dominated government, born of the rebel army that stopped the genocide, has learned never to trust the UN, or any other foreign body, to protect its people. Since Tutsis are a small minority, and since thousands of armed *génocidaires* still lurk in the rainforests of Congo, Rwanda's giant neighbour, it is hardly surprising that they feel vulnerable.

Though they would deny it, Rwanda's ruling party and its tough-as-kevlar president, Paul Kagame, have concluded that the only way to guarantee the survival of the Tutsis is to remain in power indefinitely. In many respects, they rule well: Rwanda has seen a remarkable recovery since 1994 (see article). But they

tolerate no serious domestic opposition, nor much in the way of free speech. Rwanda today is a thinly-disguised autocracy, where dissidents, who are usually accused of genocidal tendencies, live in fear, or exile, or both. The regime is also a menace to its neighbours. It was justified in invading Congo to disperse the *génocidaires* who were using the place as a base for attacks on Rwanda, but it surely did not have to kill 200,000 people in the process.

The rest of the world has learned different lessons from its failure ten years ago. Then, the West's reluctance to get involved was largely a consequence of America's shambolic intervention in Somalia the previous year. Since then, the response to all remotely similar emergencies has been guided by a desire not to allow a repeat of Rwanda. Some of the results have been encouraging. NATO eventually checked Serb aggression in the Balkans, though only after the 1995 Srebrenica massacre. British troops ended Sierra Leone's terrible civil war. Last year, in Congo's Ituri region, UN peacekeepers found themselves in a position with ominous echoes of Rwanda in April 1994: outnumbered, lightly armed and unable to prevent horrific tribal killings. Instead of cutting and running, Europe sent a French-led force to restore order, with some success.

The genocide has also jolted the world into reconsidering how to prosecute mass killers. Ad hoc international tribunals for Rwanda and the former Yugoslavia, though slow and costly, are gradually securing convictions. Several countries have passed laws allowing their courts to try those accused of genocide, regardless of where the crime was committed. The impetus to set up an International Criminal Court sprang partly from the world's shame over Rwanda. Legally, genocide is oddly defined—why is it worse to seek to eliminate an ethnic group than a socio-economic one? It is also hard to prove. Few cases are as clear-cut as Rwanda's; Slobodan Milosevic, the former Serb leader, may be acquitted of genocide, though probably not of other grave charges.

This time, never again

The surest way to prevent genocide would be to see it coming. With hindsight, there were plenty of warnings in Rwanda: speeches, editorials, preparatory massacres and so on. Outsiders did not take those warnings seriously, however, because what was being planned was so implausible. Better early-warning systems are needed: a UN special rapporteur on genocide, proposed in January by Kofi Annan, the UN secretary-general, and reporting directly to the security council, would be a start. But timely detection is difficult; genocides usually occur amid the haze of war. Even the most astute observers did not recognise Rwanda's for what it was until nearly two weeks after it began, by which time nearly half the victims were dead. The grimmest lesson from 1994 is that men are capable of evil most people would consider “unimaginable”, had they not seen the rows of punctured skulls.

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Israel and Palestine

Don't give up hope

Mar 25th 2004
From The Economist print edition

Despite Sheikh Yassin's killing, negotiation is both vital and possible

Get article background

AFP

ON THE face of it, the cycle of violence and bitterness just keeps getting worse. Certainly, in the short run, Israel's assassination of the wheelchair-bound Sheikh Ahmed Yassin, arguably the most popular and for now the most iconic Palestinian leader of them all, is going to beget still more bloodshed. Hamas, the Islamist Palestinian movement which Mr Yassin led, may now try to display reach as well as rage, by adding civilian targets abroad to those inside Israel. Yet, through the smoke, the outline of the only sensible compromise, providing for two independent and viable states, is as plain as ever. The sheikh's killing must not obscure this prospect, which most Israelis and Palestinians accept in principle. If only enough of them could agree on how to make it a reality.

Why, then, did Israel's prime minister, Ariel Sharon, do it? His first answer is that the sheikh, far from being a "spiritual" leader, as he is ritually and misleadingly described, was the *éminence grise* of a movement that routinely distinguishes itself by the hatefulness of its language, the vile intolerance of its vision, and the indiscriminate murderousness of its methods, all in the cause of ridding the world of Israel. But why now? True enough, last week's attack by Hamas, which killed ten civilians in the Israeli port of Ashdod, came near to blowing up chemical storage tanks that might have cast a lethal cloud of poison across a wide area. But murderous and provocative attacks have been happening for a good three years.

Mr Sharon had other reasons, this time, for wielding his iron fist. His recent decision to evacuate most Israeli settlements from the Gaza Strip, a fetid bit of coastline that houses 1.2m wretched Palestinians and makes up the lesser part of the would-be independent state of Palestine, means he will have to boot out the 7,500-odd Jewish settlers who live there. This has infuriated many of Mr Sharon's most ardent disciples on Israel's religious and secular right. It is causing ructions in his own Likud party and may well destroy his coalition, forcing him either to team up with the Labour opposition or to call new elections (see article). Killing the sheikh was one way to tell his assorted constituents—and watching Palestinian militants—that he had not gone soft and that, if the Israeli army does leave Gaza, it will not do so with its tail between its legs, as it appeared to do when it left Lebanon four years ago.

Unwise

Yet whatever the moral and short-term tactical justification for the assassination, it was unwise. It will not deter the suicide bombers, for whom death is plainly glory; it may even strengthen Hamas and win it more recruits. However horrible Hamas's record, Israel may yet have to negotiate with it: a good third of Palestinians support it, and it dominates several professional associations and some universities. Hamas's declared aim is Israel's destruction, and it opposed both the Oslo peace process and the international "road map". Yet it has on occasion been more pragmatic than its ideology suggests. Hamas has observed intermittent ceasefires, albeit shortlived ones. More important, the sheikh had intimated of late that if Palestinians who want a two-state solution were to win an election, he would call off his suicide bombers, while continuing, peacefully, to argue for an Islamic state.

The Israelis are fond of saying they have no reliable Palestinian interlocutor willing to impose the ceasefire that is the starting point of the road map. It is an irony, then, that the sheikh's assassination is likely to put Yasser Arafat back in the spotlight, despite Mr Sharon's repeated assertion that the Palestinians' elected leader will never be worthy of dialogue again. However much they revile him, many Israelis would now like the more secular-minded Palestinians, most of them still loyal to Mr Arafat, to take advantage of Hamas's setback. Yet it will be harder still for him to reassert his supremacy among Palestinians, with so many of them demanding fiery unity in the face of a seemingly implacable Israeli enemy. For sure, it is much to be desired that a younger generation in Mr Arafat's camp should take over. But Mr Yassin's killing does nothing to further that goal.

What next in this unholiest of lands?

For the time being, few outsiders can help much. Those Arabs who wield influence over the Palestinians will be loth, for the moment, to sound in the least bit amenable to Mr Sharon. It had been hoped that, at the Arab League's annual summit in Tunis next week, a mood of helpful moderation would prevail. The kind of initiative gamely promoted two years ago by Saudi Arabia's Crown Prince Abdullah, with an explicit offer to recognise Israel if it withdrew to the ceasefire line of 1967, might have been repackaged as a token of Arab goodwill. The best one can now hope for is that the Arab world refrains from endorsing or even helping Hamas's *jihad*.

The Americans have done far too little to persuade Israelis and Palestinians to negotiate since they unfurled that road map two years ago. The conventional wisdom is that a president will do nothing in the run-up to his hoped-for re-election. Maybe so. But Israel's promised withdrawal from Gaza, itself a good step, especially if it were co-ordinated with Palestinians, offers a chance to bring the sides back into co-operative mode. The mayhem likely to ensue in the wake of Mr Yassin's demise makes that harder. But the Americans, with Europeans at their side, must do their utmost to re-engage.

More hopeful is the dawning realisation by Mr Sharon and many in Likud that a Greater Israel that gobbles up much of the West Bank is unsustainable and that only the creation of a real Palestinian state, roughly along the pre-1967 armistice lines, has a chance of bringing peace. Mr Sharon has enraged the right wing of his own party by accepting the inevitability of a Palestinian state. But he still clings to the false idea that the Palestinians can be bludgeoned into acquiescence, cooped up behind a barrier that eats into much of their territory in a series of ghettoes that is no real state at all. For peace to come, Mr Sharon will have to drop that idea, just as Hamas will have to give up the idea that it can “liberate” the whole of Palestine by waging a murderous terrorist war on Israel's civilians.

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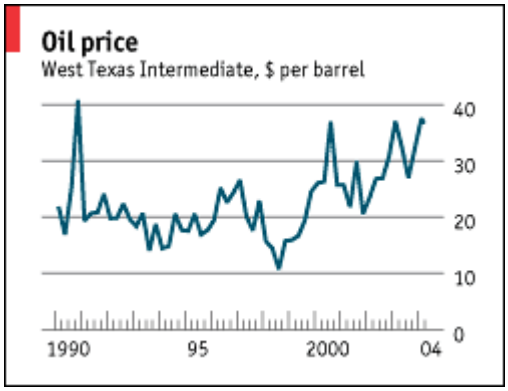
Oil prices

Shocking

Mar 25th 2004
From The Economist print edition

Oil prices are not as high as they look, nor yet a big threat to economic growth

CRUDE oil prices topped $38 a barrel last week, their highest since October 1990. They have since slipped back slightly, but prices at America's petrol pumps are now at their highest ever. This has prompted some economists to start fretting about rising inflation or even a sharp slowdown in growth. They should relax—at least for the moment.



This is not because oil no longer matters. Economies still rely on it. The world may use less oil per dollar of real GDP than before, but a big increase in prices would nevertheless harm oil-importing economies.

So far, however, the increase has not been as large as it looks. Oil prices this week were roughly a third higher than their average level in the four years to 2003. That is much less than the tripling of oil prices in the 1970s, in 1990 and again in 1999-2000. These rises were big enough to help cause global economic downturns. But following the latest rise, real-dollar oil prices, after adjusting for inflation, are less than half their peak in 1980. Furthermore, part of the recent rise reflects the weaker dollar, in which oil is priced. In euro terms, oil prices are barely higher than their average of the past four years.

Nevertheless, more expensive oil means that inflation will be higher and output a bit lower than otherwise. As a standard rule of thumb, if the $10-a-barrel increase in the price of oil seen over the past year is sustained, then it will increase inflation in rich economies by half a point, and knock a quarter point off GDP growth this year. The impact on energy-intensive emerging economies, such as China, will be still larger.

Goldman Sachs calculates that, if oil prices stay where they are, this will reduce personal disposable income in America by only $15 billion in the six months to June compared with a year ago. That reduction would be more than offset by tax cuts of $70 billion. By mid-year, however, those tax cuts will end. American inflation has started to edge up, but a big jump is unlikely while the labour market and wages (a bigger slice of firms' costs than oil) remain weak. And a small rise in inflation would hardly be a disaster: the core rate of inflation (excluding energy) is, if anything, too low in America, while average global inflation stands at 2%, the lowest for half a century.

Previous jumps in the oil price were usually caused by a sudden supply disruption as a result of a war or a revolution. This both raised the cost of producing other goods and reduced demand for them because consumers had less real income. The current price rise is not due to supply cuts (see article) but largely to strong demand for oil in America and China, inflated perhaps by some speculation. And the usual negative impact from higher oil prices is being partly offset by increased demand generated by the same factors that are boosting oil prices: the weak dollar and rapid growth in China are also spurring American exports. If higher oil prices cause firms in China to trim their investment a bit, that would be no bad thing. China's current pace of growth looks unsustainable.

Even though recent oil-price rises are less ominous than they look, complacency would be unwise. Oil prices have tripped up economies too often in the past. Current prices are unlikely to do much harm, but if they keep rising, confidence could be hit and stockmarkets could also take a tumble. That could be enough to halt America's fragile recovery. Too much of America's recent growth has been built on an unsustainable boom in household borrowing and house prices. It could so easily skid on a patch of oil.

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Taiwan

The strait widens

Mar 25th 2004
From The Economist print edition

Taiwan's voters send a signal to China

Getty Images

THERE is plenty that remains uncertain about last weekend's presidential election in Taiwan, including the result. As *The Economist* went to press, a debate was raging over whether to hold a recount. Unusually, it was the incumbent president, Chen Shui-bian, who was pushing for one, even though the declared result of the election on March 20th had him ahead by about 30,000 votes, a slim 0.2% of the 13m valid votes cast. The opposition Kuomintang (KMT) were suddenly stalling—seeking, instead, to have the whole election declared invalid. Even more mysterious was the identity of the attacker who apparently shot and lightly wounded Mr Chen and his vice-president the day before the poll. Some uncharitable souls have suggested that this whole incident was staged, as a way of scaring up a sympathy vote. The biggest uncertainty of all is what the result means for the precarious balance between Taiwan, China and America.

One thing, though, is very clear. Even if the recount were to turf him out of the presidential palace, Mr Chen has strongly advanced his cause of Taiwanese independence. In the previous election, in 2000, Mr Chen won only because the KMT, who had monopolised power in Taiwan since they fled there from the mainland in 1949, were split; this time, they were back together. In the intervening four years, Mr Chen can hardly be said to have delivered impressive government: economic growth has been fitful, policymaking haphazard and relations between the presidency and parliament (dominated by the KMT) appalling. Yet he has seen his vote rise from 39% in 2000 to 50%, give or take.

The most logical explanation for this is Mr Chen's devotion to the eventual goal of Taiwanese independence, since this is what most clearly distinguishes him from his KMT rival, Lien Chan. But what might appear to a dispassionate observer as a reasonable aspiration is deeply controversial. China has repeatedly vowed to use force to prevent Taiwan actually declaring its independence, and to underline the point has amassed an arsenal of at least 500 missiles on its Taiwan-facing coast. Though he has often been branded as a dangerous maverick, Mr Chen has in reality been quite clever. Time and again, he has stepped up to China's red lines, before stepping slightly back again. Each time, the cause of Taiwanese independence is left marginally advanced. It is the politics of calibration, sometimes clumsy, sometimes deft, but proceeding always in the same direction.

The two referendums—one asking if Taiwan should strengthen its defences against China's missiles, the other on whether to start more talks with China—that took place at the same time as the election are a good example of this. Neither passed, because a KMT-sponsored boycott meant that less than the required 50% of all registered voters participated. But Mr Chen's purpose was simply to establish referendums as a political tool in Taiwan, one that China fears may one day be used either to win independence or to block reunification. In the event, 7.5m Taiwanese (out of a voting-age population of 16.5m) sent a message of anger to China over its missiles. What Mr Chen understands, but China does not, is that democracy and Taiwan's identity are intimately linked.

Mr Chen is able to act as he has, it must be said, because he calculates that America, which has pledged to help protect Taiwan, could never stand by while its ally was invaded. Whenever he provokes China, he naturally causes consternation in America, which would far rather not be put to the test. It should be remembered, however, that Mr Chen is talking only about the possibility of a peaceful and democratic act of self-determination. It is China that threatens resort to force.

An island divided

Still, while showing that the independence movement cannot simply be brushed aside, events in Taiwan also show that opinion on the island is polarised. Many of those who voted for Mr Lien do indeed regard Mr Chen as extremely dangerous—a man who would risk the island's remarkable prosperity and the autonomy it already has in pursuit of his dream. And, while strong, the desire for formal independence in Taiwan falls short of overwhelming.

In this division lies another danger. Since the mid-1980s, when the late Chiang Ching-kuo started to reform his country's authoritarian politics, Taiwan has been a model for much of the rest of East Asia. It is also the only real democracy in the Chinese world. Enduring political paralysis would send a lamentable signal to would-be democrats elsewhere.

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Microsoft

Different strokes

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Is the EU ruling against Microsoft merely a case of history repeating itself? Actually, no

AP

STOP us if you've heard this one before. Microsoft, the world's largest software company, has been found guilty of abusing its monopoly. Its crime was to stifle competition by including ("bundling") another of its programs with every copy of its Windows operating system, which is installed on over 90% of PCs—thus ensuring the ubiquity of Microsoft's program, and squeezing out its main rival. Regulators have proposed remedies to punish Microsoft; the company plans to appeal; the case will probably drag on for several more years.

All of this was true four years ago, and all of it is true again today. Last time around, Microsoft fell foul of American trustbusters when it used its monopoly to crush Netscape, a maker of web-browsing software. This time the ruling has come from Europe's competition authorities, after Microsoft used the same trick against RealNetworks, a maker of media-playback software. In the American case, the judge ordered Microsoft to be broken up. This punishment was overturned on appeal in 2001, in effect allowing Microsoft to continue to do business as usual. In Europe, the European Commission has imposed a €497m ($612m) fine, and has given Microsoft 90 days to produce a version of Windows with the media-playback functions removed ("unbundled"), so that PC makers can substitute rival software if they choose. But while its appeal is considered, Microsoft need do nothing, and it hopes that this punishment too will eventually be overturned.

So, is this merely history repeating itself? It may seem that way, but this time really is different, for the Commission's remedy is genuinely new. Because Microsoft's business model involves using its operating-system monopoly to expand into new markets by bundling new features into Windows, the best remedy would be the break-up originally proposed in America. Under current European law, Mario Monti, Europe's competition commissioner, cannot demand anything that dramatic. But he has asked for the next best thing: rather than breaking up Microsoft, he is attempting to break up Windows.

The logical conclusion of this approach is a kind of "à la carte" Windows, in which PC makers and their users are free to choose which bits of Windows they want to buy, and which they don't. Microsoft would still be able to sell a version of Windows with all the bells and whistles attached, but nobody would be obliged to buy it. Whether this approach can be made to work remains to be seen (see article). But the fact that Microsoft is fighting this ruling tooth and nail—and even offered to include rival firms' media-players inside Windows instead—shows that it is deeply worried that it might work.

That highlights the key difference between the American and European cases. The eventual settlement in America was deliberately backward-looking, though it came too late to save Netscape. In the case of media-playback software, things are not quite so far advanced: RealNetworks has been overtaken by Microsoft, but is still alive and kicking. Mr Monti, however, is less interested in righting past wrongs than in preventing future ones. During settlement talks, he tried to get Microsoft to agree to a set of rules about which bits of Windows can be unbundled in future. It was failure to agree on this point that derailed the talks last week, and led to this week's ruling.

The next best thing

Microsoft's position is that software is such a complicated and fast-moving business that no set of rules on unbundling could possibly work. Instead, say company officials, each case should be treated individually. This, of course, conveniently allows Microsoft to continue to do as it pleases: it takes years for each case to work its way through the courts, and by then Microsoft's bundling has achieved the desired effect. The European Commission has realised this, and has tried to fashion a remedy that deals with the causes, rather than just the symptoms, of Microsoft's monopolistic practices.

A break-up of the entire firm would have been cleaner. Mr Monti's unbundling remedy will be difficult to apply, it may not survive an appeal, and it may not slow the Microsoft juggernaut even if it does. And yet, if competition is to be preserved and encouraged in the software industry, it is definitely worth a try.

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Paying for the old

Work, work, work

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Time to panic

AP

OLD age, said Maurice Chevalier, the dapper French crooner, “isn't so bad when you consider the alternative.” For most of the elderly in rich countries, it is better than ever before. The triumph of the welfare state on both sides of the Atlantic is that the old are now no poorer than the young. Indeed in some countries, such as Germany, old people are typically better off, counting the value of all they receive from government, than the young. The result has been a flourishing of retirement, that wonderful time of leisure and freedom from toil (see article).

Alas, these golden years come at an unaffordable price. The large generation of the baby-boomers soon starts to retire. They have promised themselves generous pensions and health care. Moreover, they leave the workforce much earlier than people did in the past—and they live for much longer.

At the same time, the fall in child-bearing means that the workforce in many countries will soon start to shrink. In America, there are just enough babies for zero population growth. Elsewhere, birth rates are even lower. So the ratio of workers to idle elderly will grow worse and worse. The result will be a crisis for governments, which face huge increases in their spending on social security and health care. In the few countries where companies pay pensions and the even fewer where they pay health costs, balance sheets will come under immense pressure. No wonder the (fairly) youthful Rick Wagoner, boss of General Motors, sees health-care costs as the greatest single burden on his business.

What is the answer? Most governments—and companies—have a breathing space of about a decade in which the working-age population will be larger than ever before. They need to make changes quickly if they are to affect working patterns of people now in their 50s. Many governments have tentatively begun to make reforms, and a few, such as Sweden, have been brave. But far more needs to be done, and in the teeth of deep hostility from older voters and from the unions that frequently defend their interests. Reform will be one of the toughest tests of universal suffrage: children can't vote, young people don't vote, but older people have a huge incentive to vote selfishly, and to turf out governments that threaten their pensions and health care.

The highest priority is to persuade older workers to stay a few more years in employment. In work, they pay taxes and generate wealth. In retirement, they pay much less tax, and rarely contribute to the economy. Employers need them, too: many will lose more workers than they can easily replace. In the aerospace industry, for example, some 27% of workers are likely to retire by 2008; and at the National Aeronautics and Space Administration, 22% of workers are already over 55 years old.

To persuade older workers to stay requires changes in pension schemes and employment practices. Research by two American economists, Jonathan Gruber and David Wise, has established that two factors are crucial: the age at which social-security benefits first become available, and the way benefits accrue if an older person continues to work. If it does not pay to stay on at work, people do not do so: the enticements of retirement are too great.

At present, many employers are relieved when the old retire: seniority pay systems and defined-benefit pension schemes make them much more expensive to employ than younger workers even if—as is often the case—older workers are more reliable and need less managing. Where employers still offer defined-

benefit schemes, they need to replace them with defined-contribution arrangements, such as America's 401(k) plans. Nowhere is that more essential than in the public services, which have been slower than private companies to insist on this cost-cutting change. When pension schemes work like savings plans, workers can see what they will get—and are more likely to stay in work.

Make a deal

And here is another idea. At present, hardly anyone works past 65. Yet half of America's baby-boomers will live to the age of 85 at least. Why not scrap all taxes on the income employees earn after their 65th birthday? Set a tax-free income ceiling by all means to stop elderly company directors from raking in millions. But treat the average white-haired worker like a legal illegal—no paperwork and no extra costs apart from pay. That would be a great incentive for old people to stay at work. And what employer would not jump at such a bargain?

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Letters

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From The Economist print edition

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Kyoto's last gasp?

SIR – It is unlikely that "Local activism may force George Bush to take action on global warming", as you suggest ("Bottom-up greenery", March 20th). Consumers across America are screaming about increasing petrol prices and gas prices at an all-time high. Since the effect of all the schemes to tackle climate change is to drive up prices of these two precious commodities further, it seems doubtful that national legislation to limit carbon-dioxide emissions will ever find majority support among consumers—who after all have a lot more votes than big business.

Senator John McCain can huff and puff, but his bill does not have the votes even to get out of committee. Rather than seeing state legislation as a sign of things to come, is it not more likely to turn out to be the last gasp of the Kyoto dead-end?

Myron Ebell
Director
Global warming and international environmental policy
Competitive Enterprise Institute
Washington, DC

Throw out the junk

SIR – You say that I describe studies that claim genetically modified crops would be hazardous to Britain's wildlife and consumers as "junk science" ("Frankenfood approved", March 13th). Although I do think there is too much junk science surrounding this debate, and I provided some examples, I want to be clear it is not my view that all such studies are junk science. Indeed, we rejected GM oilseed rape and GM beet following our own farm-scale trials, which showed they damaged the environment.

Our top priority is to protect human health and the environment through robust regulation of GM crops on a case-by-case basis, consistent with the precautionary principle. We take public concern very seriously and we have weighed public opinion alongside the scientific evidence. All science, whether pro- or anti-GM in its conclusions, should be properly peer reviewed and sound. Sloppy arguments based on claims that fall apart under critical scrutiny damage the credibility of those who use them, on either side of this issue.

Elliot Morley
Environment minister
London

Kitchens sink drama

SIR – You note as ironic that Jamie Oliver, an Essex boy, should have a TV show in France that has become cult viewing ("Oliver gets some more", February 28th). Besides his undeniable talent, there is another explanation: the skewed nature of TV-production subsidies in France means that it is often cheaper to buy foreign fare than it is to produce locally. Although generous, the grants made by the Ministry of Culture are exclusively targeted towards scripted, fictional programming—presumably more "cultural" than cooking. Which proves that you cannot have your culture and eat it too.

Michel Lebrun
Chief financial officer
Cuisine.TV
Paris

Wrong side of the border

SIR – In the "World this week" you report erroneously that "Israeli aircraft bombed two Hizbullah guerrilla camps in southern Lebanon. The raid came in retaliation for a Hizbullah missile attack that killed an Israeli on the Israeli side of the border" (January 24th). Immediately after the initial incident on January 19th there was some confusion as to the exact location of the Israeli military bulldozer in which the soldier was killed, with Israel claiming it was inside Israeli territory.

However, by the following day it had been verified by the United Nations Interim Force in Lebanon that the bulldozer was inside Lebanese territory and Israel changed its version of events accordingly. This information was freely available through the news-wire services, including Reuters, by January 20th and obviously puts the later Israeli "retaliation" in a very different political and legal context.

Benjamin Counsell
Arab Media Watch
London

Wining liberals

SIR – Matthew Cooper suggests that it is a boring form of rebellion to drink red wine with fish, as some sort of slur on John Kerry ("Primary colour", March 13th). That may be the case in America but certainly not in Europe where one can always choose between red or white wine with fish without embarrassment. As John Kerry once lived here, I am sure he feels no shame.

Pamela Lawrence Hotz
Zurich

Europe's outer limits

SIR – You ask where the eventual boundaries of the European Union should lie (Charlemagne, March 13th). All nations having a maximum of one other country between them and the North Sea or Mediterranean and using the Roman alphabet can and should participate in the EU. This means exit Greece and enter Turkey, leaving Cyprus right in between. No more doubt about Belarus, or Iran.

Paul Harts
Groningen, Netherlands

Benetton answers back

SIR – In your survey of the fashion industry you state that Benetton has been accused of using child workers in Turkey (March 6th). In fact, Benetton was absolved of these accusations. In April 2003, a Milan court found that the allegations published in an article in *Corriere della Serra* were seriously libellous. We would have hoped that this verdict would have re-established the correctness and transparency of Benetton's social and ethical conduct.

Also, it is odd that you say that the first loss posted by Benetton in 40 years of activity was linked to its advertising campaigns. The reason for the loss is directly attributable to the sale of three sports-equipment brands—Nordica, Prince and Rollerblade—an extraordinary and non-recurring item. In the 20 years that Benetton has carried out this type of social advertising it has made profits of over *euro*1.8 billion.

Federico Sartor
Benetton Group
Treviso, Italy

Making up the grade

SIR – My own motives for marking over-generously when a lecturer at an English university were purely ones of self-interest ("Grade expectations", March 20th). How much better to be warmly regarded by students, who would in turn assess me in "customer satisfaction" surveys. The assessment system being thoroughly debased, I saw no harm in corrupting it further by awarding all students top grades, thus being regarded as an excellent teacher by managers, and safeguarding my job by ensuring that my courses always recruited well.

Philip Magill
Huddersfield, West Yorkshire

Is that clear?

SIR – While reading your article on Alan Greenspan's unusual clarity I could not help but recall the Federal Reserve chairman's own words on the matter ("Unusually clear", March 6th). "If I seem unduly clear to you, you must have misunderstood what I said."

James White
Chicago

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Rwanda since the genocide

The road out of hell

Mar 25th 2004 | KIGALI
From The Economist print edition

AP

Rwanda is tranquil: a staggering achievement. But the way the government enforces peace is disturbing

Get article background

“THERE are no Hutus or Tutsis any more, only Rwandans. We live and work side by side. There are no problems.” So says Oreste, a peasant, sitting by a dirt road amid the banana trees. He adds that everyone he knows feels the same way. But as we left, your correspondent's driver put on sunglasses and pulled up his hood. He didn't want to be recognised, he said, by the people who had murdered his father and 4,500 of his neighbours.

Ten years after the genocide, Rwanda is at peace, on the mend and outwardly serene. This is an astounding achievement, given what the country has suffered. In the 13 weeks after April 6th 1994, between 500,000 and 800,000 Rwandans were murdered. It was perhaps the fastest genocide in history, although the killers were mostly armed, not with guns or poison gas, but with farm tools.

Today, practically every Rwandan has friends or relatives who either died or took some part in the killing. And yet they live together, Hutus and Tutsis, on the same green hills, with barely a whisper of trouble. The nation appears uncannily united. The president, Paul Kagame, won 95% of the vote at an election last year. Oreste says that everyone in his village supports the government, without exception.

“We have to forget the past and look at the future,” he says. Most Rwandans talk like this. If they harbour dissenting views, they keep quiet about them. “I don't want to talk about politics,” says a Hutu teacher. “Don't talk so loudly,” says a Tutsi businessman, glancing nervously over his shoulder, though we are in a private booth in a noisy restaurant.

Rwanda's government is unique in Africa in that it tries to control not only what its citizens do, but also what they think. Perhaps it was inevitable. Mr Kagame shot his way into power in July 1994, ousting the regime that was trying to kill every last Tutsi, and every Hutu who refused to join in. With his army of Tutsi exiles, he stopped the genocide. His party, the Rwandan Patriotic Front (RPF), includes both Hutus and Tutsis, but has one aim that trumps all others: to ensure that genocide never recurs. That was never going to be a task for the squeamish.

When the outside world first became aware of the genocide, many assumed it was a spontaneous outburst of hatred, a terrible expression of ancient tribal passions in a country consumed by chaos. In fact, the slaughter was meticulously planned and executed by one of the most authoritarian states in Africa.

A history written in blood

Rwanda's two main tribes, the Hutus and the Tutsis, have skirmished since pre-colonial times, but organised massacres are a modern evil. There used to be a lot of movement between the groups, but the Belgian colonists, who ruled from 1916 until 1962, judged that the tall, thin Tutsis were superior to the shorter, flat-nosed Hutus, and decided to rule through them. They deposed Hutu chiefs in favour of Tutsis, favoured Tutsis in admissions to colonial schools, and created a legacy of ethnic resentment. They also issued every Rwandan with an ethnic identity card; these were to prove an invaluable tool for *génocidaires* who wanted to know whom to kill.

Shortly before independence, the tribes' roles were reversed. Since Hutus are a large majority, a Hutu party easily won an election in 1961, as the Belgians prepared to leave. It tried to impose ethnic quotas: since Tutsis were estimated to be 9% of the population, they were allowed only 9% of school places and salaried jobs.

In 1973, power was seized by a general called Juvenal Habyarimana, whose sole claim to legitimacy was that he was one of “the majority people”. He stationed spies everywhere, forbade his subjects from moving house without permission and insisted that every man, woman and child should join his ruling party. He discriminated ferociously against Tutsis, 600,000 of whom had fled the country by 1990.

Some joined Mr Kagame's rebel army, which invaded from Uganda that year. Threatened by a mostly Tutsi army, some within the regime decided that the only way to hang on to power was to exterminate all Tutsis. Despite a peace accord in 1993, they recruited and indoctrinated thousands of militiamen, and imported enough machetes to give one to every third adult Hutu male. A pretext was found on April 6th 1994, when Habyarimana's aeroplane was shot down by unknown assassins (see article).

The dead president's most bigoted associates, allegedly led by Colonel Théoneste Bagosora, who is now on trial before an international court in Tanzania, grabbed control and started killing. They harnessed the state apparatus to their cause: local officials called meetings where peasants were ordered to carry out acts of “self-defence” against the rebels' “accomplices”. Hutus who refused to kill were killed; those who showed the most enthusiasm were rewarded with their victims' land or cows. A popular radio station howled for blood. The world watched.

A land of ghosts

Dotted around Rwanda today are dozens of memorials. The biggest, which a British charity is frantically helping to complete in time for the tenth anniversary of the killing, is to have dignified mass graves, video exhibits and audiotape tours that will allow even the illiterate to learn something.

Other sites are cruder. In a church at Ntarama, south of the capital, Kigali, the possessions of the dead have been left to rot where they were dropped, between the wooden pews. Some 5,000 Tutsis sought sanctuary in the church. The militia came and tossed in hand grenades—dots of sunlight still peep through little shrapnel holes in the corrugated iron roof. Then they finished the job with clubs and machetes.

Few survived. Pacifique Rutaganda says he slipped through a window, dodged the crowd of killers and ran into the bush. He crept back in the evening to see if anyone was still alive, and found a few of his neighbours still murmuring, despite having had their arms or legs hacked off. An outbuilding, into which victims were crammed with their mattresses and burned alive, is still blackened with soot.

Bones are scattered on the floor of the church; visitors must take care not to crunch them underfoot. Many more have been gathered up in rough white sacks, or laid out on tables for display. The smallest skulls are mostly incomplete—infants' jawbones tend to sheer off when clubbed.

The genocide ended when the RPF won the war. Mr Rutaganda recalls with clarity the moment he first

encountered Mr Kagame's men. He was hiding in the bush, and he heard them shooting in the air to attract the survivors' attention. “I was overjoyed”, he says, “because I knew I was not going to die.”

Appalled at what they saw, the victorious rebels asked Tutsi survivors to identify the killers. According to a suppressed UN report, the RPF killed some 25,000-45,000 people between April and August 1994. Mr Kagame's men then pursued the fleeing *génocidaires* into the rainforests of Zaire (now Congo), Rwanda's giant neighbour, where they killed perhaps 200,000 more. In the process, they overthrew the Zairean government, which had supported the *génocidaires*, and stoked the worst war that Africa has ever seen.

The RPF is now out of Congo, and in unchallenged control of Rwanda. Given the country's complete devastation in 1994, the new regime has done a good job. Buoyed by ample foreign aid, it has rebuilt the shattered school and health-care systems. Average incomes are now roughly back to their pre-genocide level, having fallen by half in 1994.

Hundreds of thousands of Tutsi refugees have returned. Their economic contribution has been vast: they brought cash and skills to a country that had slaughtered most of its middle class. But their return has also been socially disruptive.

Many were born abroad, or had lived there since the first big Tutsi exodus in 1959. Some, including Mr Kagame, arrived with only a basic knowledge of *kinyarwanda*, the local tongue. “Those who came from abroad” now call the shots. It is as if, in 1945, Germany had been conquered by an army of German Jews who had lived all their lives in Britain.

The RPF is at pains to stress that it is not a tribal party. It has abolished ethnic identity cards, and forbids the breakdown of official statistics by tribe. Rwandans are encouraged to think of themselves as one happy family; a courtesy that is extended even to Hutu rebels in Congo who surrender and come home.

These rebels are put through a re-education camp below the hills of Ruhengeri, a scenic spot where tourists trek to watch wild gorillas. The purpose of Camp Mutobo, says the boss, a Ugandan-bred Tutsi called Frank Musonera, is to teach ex-fighters how to lead productive lives in the new Rwanda. Having spent nearly a decade in the bush, and having been taught by their commanders that Rwanda's Tutsi rulers kill Hutus on principle, they face a culture shock when they come home and realise that all is well, he explains.

In two months at the camp, they are taught practical skills, such as how to start a carpentry business or open a bank account. They are also taught how to be what Mr Musonera calls “good patriotic citizens”. This includes imbibing the RPF view of history—that ethnicity was unimportant in Rwanda before the colonists arrived, and that all subsequent tribal killings were the fault of bad governments. The lessons contain much truth, but it is still striking how uncritically Camp Mutobo's inmates seem to absorb them.

Innocent Habimana, a 21-year-old ex-guerrilla who had been in the Congolese bush for ten years before coming to the camp, recites what he has learned: “There are no Hutus and no Tutsis, we are all Rwandans and we have to live as brothers. Everyone in the camp accepts this.” Asked whether the RPF, against whom he fought several desperate battles, has ever done anything wrong, Mr Habimana replies without hesitation: “No, nothing.”

The message is drummed into civilian ears, too. All young Rwandans are obliged to attend “solidarity camps” where they are taught to love one another. Some find it useful. Others less so. “The government tells people to embrace each other, and they respect what the government says, but in private they feel just as they did,” says Simon Gasibirege, a psychologist.

Obey, or disappear

To a casual visitor, Rwanda does not seem oppressive. Ministers are not ostentatiously corrupt. The police do not routinely demand bribes, and those who err are punished. But the RPF exercises tighter control over the country than perhaps any other African ruling party.

There is no freedom of the press, because that might allow “divisionists” to spread once more their foul ideology. There is no freedom of association, either. Anyone who tries to set up a serious opposition party is subject to harassment, arrest and threats that Rwandans take seriously

because they know their government can be ruthless when the occasion demands. America's State Department reported no political killings in Rwanda last year, but at least six opposition figures disappeared.

Bagosora, the alleged mastermind

Membership of the RPF is not compulsory, but prominent Rwandans come under great pressure to join. The rigidly hierarchical system that made the genocide possible still exists, albeit in a far more benign form. The smallest administrative unit is of a mere ten households. The head of each unit is likely to be urged to join the RPF. Those who join must sign an oath of loyalty to the party, which stipulates that they will be treated as “enemies” if they betray it. Those who refuse to join may find that when they want something from local government, officials are unhelpful.

Perhaps the most potent threat is of arbitrary detention. This is not common, but Rwandan jails are so ghastly, and Rwandan trials so slow—unsurprisingly, given how many lawyers were murdered in 1994—that few people will risk saying anything that might prompt an RPF informer to doubt their loyalty to the regime.

The reason that prison conditions are, as America's State Department puts it, “life-threatening”, is that 90,000 inmates, mostly genocide suspects, are crammed into cells designed for a fraction as many. Few have had proper trials. Some 22,000 were provisionally released last year, having largely served terms appropriate to their alleged crimes. Under a scheme whereby those who confess are released, another 30,000 are soon to be set free.

The scheme, which does not apply to the ringleaders of the genocide, is intended to ease overcrowding and reveal the truth about the events of 1994. Some of the confessions may be unreliable, however. After a decade in cells so packed that inmates must take turns to sit down, some doubtless tell their jailers what they want to hear. And many Tutsis are unhappy to see their families' killers moving back into the hut next door. “How do you think we feel?” asks one.

In 2001, to speed up the judicial process, the government began organising village courts called *gacaca* (meaning “on the grass”, which is where they take place). The idea was that elected lay judges would hear testimony from everyone in the village who witnessed the genocide, and hand out prison sentences to those found guilty. The plan was widely hailed, but has stalled. The poor do not like spending valuable working days listening to evasive testimony. And Hutus feel bitter that *gacaca* courts are barred from discussing events after July 1994, when the RPF killed legions of their kin.

“There is a huge silent resentment of the government,” says Ismail Mbonigaba, an opposition activist who says he fled death threats last year and who now lives in Uganda. “They've created a general climate of fear, and they demonise all their opponents as [advocates of] genocide.”

Meanwhile, back in Rwanda, the government is planning all manner of sensible-sounding reforms. Donald Kaberuka, the finance minister, talks enthusiastically of the need for faster privatisation and sweeping land reform. Rwandan peasants do not enjoy formal title to their land, so they cannot easily sell it or use it for collateral. They must have property rights, he says. Given the enormous refugee flows in and out of Rwanda in the past ten years, won't it be difficult to establish who owns what? No, says Mr Kaberuka. Perhaps he is right. The government has already persuaded people to share their land with returning refugees, and to accept newly released killers as neighbours.

Persuasion, only

Many rural people have been moved from their isolated huts to orderly villages, where they are more likely to find a school, electricity, and better security, according to the agriculture minister, Patrick Habamenshi. The old regime used to tell people where to live, but this is different, he says. “It's not compulsory. It's about talking to people and persuading them. Only a small portion say no.”

Mr Habamenshi dismisses the idea that Rwandans are afraid of their rulers. “You wouldn't be nervous about a government that is supplying you with peace and security,” he says. He ascribes the tight-lippedness of ordinary Rwandans to their culture. “We are very reserved,” he argues, “We don't do small talk.”

What of the future? There will not be another genocide, thinks Alison des Forges of Human Rights Watch, a veteran Rwanda-watcher. Genocide requires control of the state, and those who control the Rwandan state are unlikely to let go anytime soon. But given the instability of the region, and the unresolved frustrations stopped up within Rwandan hearts, “there could be a resumption of violence, and that could take an ethnic turn.”

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The murder that sparked the genocide

Who shot down the presidents' plane?

Mar 25th 2004
From The Economist print edition

An unresolved mystery

Get article background

AFP

Kagame denies responsibility

EVEN now, nobody knows who lit the fuse. On April 6th 1994, two missiles struck a plane carrying Rwanda's Hutu president, Juvenal Habyarimana, and his Burundian counterpart, killing all aboard. Within hours, the genocide had begun.

The Hutu fanatics who seized power blamed the Tutsi rebels of the RPF for the assassination, and used it to justify the genocide. The RPF has always maintained that the *génocidaires* themselves staged the murder, to give themselves an excuse to start killing.

This month, the results of a French police investigation were leaked to *Le Monde*. It accused the RPF leader, Paul Kagame, of having ordered the attack.

Even if true, this does not mean that Mr Kagame, who is now Rwanda's president, was to blame for the genocide. The crime was planned in advance; the machetes had already been ordered. It would have happened anyway. But the murder of a Hutu president made it easier to convince ordinary Hutus to take part in the killing. If the Tutsis did this to your president, the *génocidaires* told fearful Hutu peasants, think what they will do to you.

Mr Kagame angrily denies the allegation. He retorted on March 16th that the French government had knowingly supported the genocide by arming the killers, and even manning road blocks at which Tutsis were stopped and identified. France did indeed—scandalously—arm the killers; the Habyarimana regime was one of its clients, and it did not want to see it overthrown by the RPF. France knew it was supporting a vile regime, but probably did not realise, until quite late, just how vile.

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National security

The blame game

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From The Economist print edition

Was Iraq a distraction from the war against America's real enemies? And could those enemies have been countered earlier?

GEORGE BUSH is running as a war president, a man willing to take the hard decisions needed to defend America from existential threat. As evidence, he claims he took the danger of global terrorism very seriously even before the attacks of September 11th 2001, and that since then he has prosecuted the war on terror with the utmost possible vigour, including the decision to overthrow Saddam Hussein.

Given the significance of his war leadership, a credible challenge to either of his claims would be a matter of the utmost consequence. This week, both came under fire from a variety of reputable sources in Washington. Their criticism could resonate far beyond the Beltway because Americans have consistently said that, on terrorism, they trust Mr Bush more than they do John Kerry, his Democratic rival.

On Tuesday March 23rd, the commission set up by Congress to investigate the al-Qaeda attacks released preliminary reports criticising both the Bush and Clinton administrations for their responses to repeated assaults by al-Qaeda on American targets in the 1990s. It argues that both governments focused too much on diplomatic efforts (for example, to try to get Afghanistan to expel Osama bin Laden) rather than military options. It claims intelligence reports to Mr Bush had given warning of a potentially catastrophic terrorist attack against American targets (warnings that were later acknowledged in testimony by Colin Powell, the secretary of state, and Donald Rumsfeld, the secretary of defence). And it added new details of four opportunities to capture Mr bin Laden himself between December 1998 and July 1999, which it claimed the Clinton administration failed to grasp for fear of killing innocent bystanders.

This was bad enough but, the day before, a new book by Richard Clarke (“Against All Enemies”, Free Press) levelled accusations that could prove even more damaging. Mr Clarke, the counter-terrorism co-ordinator in both the Bush and Clinton administrations, argues that Mr Clinton took the threat of al-Qaeda somewhat more seriously than the Bush administration (and even had successes against it, such as foiling a plot to bomb Los Angeles airport and a hotel in Jordan during the millennium celebrations and disrupting its attempt to take over Bosnia during the Yugoslav wars). The Bush administration was weaker, Mr Clarke claims, because members of the president's inner circle were distracted by their obsession with Saddam Hussein. Before 9/11, they thought the danger from al-Qaeda important; they did not think it urgent.

Mr Clarke says he asked the new administration within a week of its inauguration to discuss the threat

from al-Qaeda at the highest (cabinet) level. But such a meeting did not take place until nine months later—only a week before the attacks, and too late to make a difference. Instead, the issue was discussed at a lower level, that of the deputy secretaries. At the first meeting, in Mr Clarke's telling, Paul Wolfowitz, the deputy defence secretary, said “I just don't understand why we are beginning by talking about this one man bin Laden. There are others that do [pose an immediate and serious threat] as well, at least as much. Iraqi terrorism, for example.”

The charge that the administration was slow to appreciate the full extent of al-Qaeda's threat may well be politically harmful. In testimony before the commission on March 24th, Mr Clarke dramatically apologised to the relatives of 9/11 victims sitting in the room: “Your government failed you...I failed you.” And the charge that the Bush team was wrongly focused on Iraq instead corroborates the growing view that the president and his team are stubborn over matters of national security (a view that stems partly from the administration's insistence that weapons of mass destruction would be found in Iraq). John Kerry has been repeating the charge of stubbornness at every chance he gets.

The administration has responded to Mr Clarke's charges with a torrent of personal censure, impugning his motives by accusing him of everything from frustrated ambition to political disloyalty and to being “out of the loop” (Dick Cheney's term). Given Mr Clarke's background—he arguably knows as much about al-Qaeda as anyone in America—this attack may not work.

But Mr Clarke's central charge is probably unproven. Given what was known or believed about Saddam in early 2001, the administration had every cause to worry about Iraq when it came into office. The real question is whether it could have done more than it did against al-Qaeda, regardless of the reason.

Mr Clarke says it could. He argues that the administration could have strengthened the Northern Alliance, the armed opposition group fighting the Taliban for control of Afghanistan. It could also have pushed harder to deploy Predator drone aircraft over Afghanistan to kill Mr bin Laden before 9/11. It could have spent more money reducing its vulnerabilities at home (in fact, the Justice Department did not list fighting terrorism as one of its main goals before 9/11). It could have done more to encourage, say, educational alternatives to radical Islamism in Muslim countries threatened by al-Qaeda.

The report by the 9/11 commission provided some corroboration for these claims of negligence to act. So, this week, did internal administration documents which showed that, after 9/11, the Office of Management and Budget cut by two-thirds a request for $1.5 billion of additional counter-terrorism funding from the Federal Bureau of Investigation.

In reply, Condoleezza Rice, the national security adviser, argued (in an article published in the *Washington Post*, not coincidentally, on the day Mr Clarke's book appeared) that the administration did in fact increase funding for counter-terrorism before 9/11. It did consider deploying armed Predators, but military experts said the craft were not ready. It rejected sending help to the Northern Alliance on the ground that the group was then too weak to make significant advances anyway. As several of the officials giving testimony to the commission argued, it would have been politically impossible to have sent substantial commando forces into Afghanistan before 9/11: neither surrounding countries nor the American Congress would have countenanced such a move.

Most important, Miss Rice argued, even if the administration had done everything Mr Clarke wanted, that would probably not have been enough to deal with al-Qaeda or stop the terrorist attacks on the World Trade Centre. Mr Bush, she said, was tired of “swatting flies”. Something more was needed, which the administration was working on throughout 2001. But it was too late.

And there, for the moment, the debate rests. The Bush administration was urged to do more before 9/11, and chose not to, for reasons that seemed right and reasonable at the time. It was working on a strategy to deal with al-Qaeda, but too slowly to do any good. Some of its members were more concerned about Saddam Hussein than Osama bin Laden. Nothing here can be called indefensible. Whether this is the record of someone who treated al-Qaeda with the utmost seriousness is another matter.

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The Supreme Court

Not ducking

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From The Economist print edition

Justice Scalia refuses to disqualify himself from the Cheney case

TRADITIONALLY, the nine Supreme Court justices are a secretive bunch. They never give their reasons for refusing or accepting a case, rarely give interviews, and always strive to remain above the fray. This, they feel, helps preserve the mystique and power of the court. All the more astonishing, therefore, that Justice Antonin Scalia, the court's most conservative and hard-hitting judge, has chosen to issue a 21-page memorandum explaining why he will not disqualify himself from a case involving his long-time friend, Dick Cheney, the American vice-president.

AP/Reuters

Veep and friend

Ever since the *Los Angeles Times* discovered two months ago that Mr Scalia and Mr Cheney had gone on a duck-shooting trip together at the beginning of the year, Mr Scalia has come under almost daily pressure from politicians, environmental lobbyists, editorialists and cartoonists across the United States to recuse himself from the case when it is heard by the Supreme Court next month. Such fraternising with a litigant, they argue, opens the judge to charges of impropriety and bias.

The case involves an energy policy task-force set up by Mr Cheney in 2001. Suspecting that the vice-president had been secretly inviting energy-industry executives to task-force meetings, the Sierra Club, America's biggest environmental group, sued Mr Cheney under the Federal Advisory Committee Act to force him to divulge the names of the participants along with the minutes of what had been said. Mr Cheney refused, claiming that this would be a serious infringement of his executive privilege.

With presidential elections looming and a question-mark already hanging over the vice-president's political future, this is hardly the “run-of-the-mill legal dispute about an administrative decision” that Mr Scalia claims it to be. Two lower courts have already issued judgments against Mr Cheney. If the Supreme Court now confirms that he acted improperly, this would further damage his reputation. Mr Scalia's vote might prove crucial. If he stepped down, the court could split 4-4, and the ruling of the lower court would then prevail.

It is the risk of such hung votes that makes the Supreme Court chary of recusals. Under a 1974 federal rule, a judge is required to disqualify himself if “his impartiality might reasonably be questioned”. How this should be interpreted is generally left to the individual justice. By chance, Mr Scalia has recused

himself from another high-profile case involving the pledge of allegiance—which was argued before the Supreme Court this week—after making disparaging public comments about its merits. But in the Cheney case, he says his recusal is not only unwarranted, but could actually harm the court. It might look as if he had succumbed to public pressure, creating a dangerous precedent.

In a passionate riposte to his critics, Mr Scalia says that on learning that his friend Wallace Carline, the head of an oil industry services company, was an admirer of the vice-president, he got him to invite Mr Cheney on his annual duck-shooting trip in Louisiana. The invitation was issued last spring, long before Mr Cheney's case came before the Supreme Court. As there were spare places on the vice-president's jet, Mr Scalia flew down with him. But this was of no financial benefit to himself, as he had already bought a return air ticket.

There were 13 people on the trip, he says. Sleeping was in rooms of two or three, save for the vice-president who had his own quarters. All meals were in common. He was never in the same blind as the vice-president. Indeed, he was never alone with the vice-president, “except, perhaps, for instances so brief and unintentional that I would not recall them,” he says, adding, “Of course, we never said a word about the present case.”

Mr Scalia points out that Supreme Court judges have long socialised with congressmen and members of the executive. “This well-known and constant practice has not been abandoned, and ought not to be,” he says. And he adds: “If it is reasonable to think that a Supreme Court justice can be bought so cheap, the nation is in deeper trouble than I had imagined.”

But as numerous American commentators have pointed out, the question is not whether Mr Scalia's impartiality has in fact been impaired, but whether a reasonable person could think that it might have been. And, so far, he has not fully convinced them that this was not the case.

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Obesity

A staple in time...

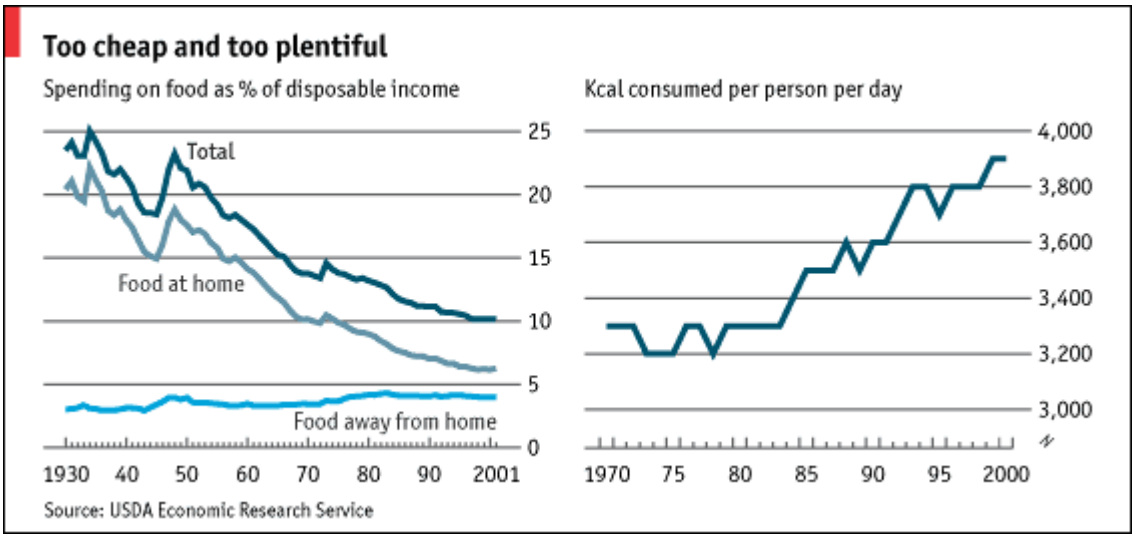
Mar 25th 2004 | BEVERLY HILLS AND SEATTLE
From The Economist print edition

A drastic way to lose weight gathers legions of fans

"THEY become like a family," says Dr Jamshid Nazarian. "The relationship goes beyond the medical." Indeed so. When the morbidly obese visit the Beverly Hills office of the impressively skinny Dr Nazarian, they are desperate. His radical solution to their excessive weight is the "Roux-en-Y gastric bypass". He will staple off the top of the stomach; use more staples to create a tiny substitute; and then link this pouch to the small intestine. No wonder patients need sympathetic pre-operative counselling and long-term post-operative monitoring.

Dr Nazarian's "family"—nine-tenths of them women, though obesity knows no gender—is a growing one. He has more than 2,000 bariatric, or weight-loss, operations to his credit and is now doing about six bypasses a week. And there are more and more doctors like him around. A decade ago, only about 15,000 gastric-bypass surgeries were performed each year in America. In 2003 that number leaped to 103,000.

Americans are growing fatter, and more worried about being fat, all the time. Some 30% of the population is obese, twice the percentage in 1990. A smaller percentage, about 4.9% (also twice what it was in 1990), is morbidly obese. Americans are so overweight that in early March the federal Centres for Disease Control reported that poor eating habits and lack of exercise would soon make obesity the top killer in the country, overtaking smoking. Already, some 300,000 Americans die each year because they are too fat.



Depressingly, the trend shows no signs of flagging. Indeed, while the poor and black are more likely to be obese than the rich and white, the Rand Corporation's Roland Sturm pooh-poohs the notion that higher education and greater wealth will stem the broadening tide. His research shows rising numbers in all social groups, with the numbers of morbidly obese increasing twice as fast as the merely obese.

Three years ago Ellen Buskeek, who is 50, was one of their number. She weighed 293 pounds. Walking upstairs left her heart pounding. She had asthma, and was close to developing diabetes. Ms Buskeek had tried various diets, but none worked. So in May 2002 she had her stomach surgically reduced to the size of a shot glass. She now weighs about 150 pounds, most of her health problems have vanished, and she cycles with no trouble.

Once their stomachs are tiny, most patients not only eat far less but also lose the desire to over-eat, possibly because of changes in a hormone called ghrelin that is secreted by the stomach. The mountains of excess flesh soon slip off, so much so that about half of bariatric patients later undergo surgery to remove surplus skin flapping around their abdomen, upper arms and legs. Obesity-related diseases such as asthma or diabetes disappear.

As the procedure becomes more common, famous patients are enthusiastically promoting it. So, too, are health companies. Dr Nazarian is connected with JEG Diversified Healthcare, a California company that markets a programme called LivLite to promote the benefits of bariatric surgery across America. LivLite and its competitors offer something for everyone. For doctors and hospitals, they offer generous profits: the surgeon's fee for the two-hour operation will be around $5,000 and an expensive hospital bed will be filled for four days. For insurance companies, which may have to shell out $30,000-70,000 for everything from preliminary counselling to post-operative care and cosmetic surgery, they offer long-term savings: they will not have to pay for all the ailments that a morbidly obese person will inevitably succumb to over the years.

Richard Thirlby, a surgeon in Seattle who has performed bariatric surgery since 1984, argues that its cost is offset both by the patient's better health and because expensive diet regimens are made superfluous (Americans spend perhaps $40 billion a year on trying to lose weight).“The cost-benefit ratio of this procedure exceeds anything else we do,” says Dr Thirlby.

Yet it is not risk-free. Obese people are already unhealthy, which makes surgery risky. Perhaps as many as 2% of patients die during or soon after surgery, according to a recent issue of the *New England Journal of Medicine*. Even more require follow-up surgery to repair problems, such as staples coming adrift. The procedure does not always work; some patients are so addicted to food that they eat small amounts of calorie-rich victuals almost constantly, even gaining weight.

Bariatric surgery's complications, price and growing frequency have put it under a spotlight. Massachusetts health officials are studying the practice, and may move to regulate it. The American Society for Bariatric Surgery—which had 258 members in 1998 and now lists more than 1,100—will meet in June to discuss techniques. And the National Institute of Diabetes & Digestive & Kidney Diseases, a federal agency, is launching a five-year, $15m study of the surgery's risks and benefits.

Yet the list of delighted customers, like Ms Buskeek, is growing by leaps and bounds. Despite the risks, bariatric surgery offers not just a new shape and a healthier future, but self-respect: even in America, the fattest nation on the planet, the thin have more fun.

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Texas politics

A little help from their friends

Mar 25th 2004 | AUSTIN
From The Economist print edition

Just how was the Republican takeover paid for?

Get article background

AP

Awkward questions for DeLay

TOM DELAY, the majority leader of the House of Representatives in Washington, has been eradicating Texas Democrats like the bugs he once sprayed as a professional pest exterminator. But since 2002, when the Republicans put an end to 130 years of Democratic rule in the Texas statehouse, Mr DeLay has come across one uneradicable Democrat: Ronnie Earle, the district attorney of Travis County.

Given the job of investigating corruption in the state capital, Mr Earle launched a criminal probe into the fundraising that financed the Republican takeover. He dusted off a 1905 law that makes it a felony to use corporate or union money to influence directly a state election, and has thus caused tremors in the Texas Republican establishment.

Nobody disputes that buckets of corporate money were poured into the crucial 2002 state House election. But the Republicans say that the money was used for legal administrative expenses: rent, utilities and the like. Hogwash, say Democrats and watchdog groups: it was used for opinion polls, salaries for Republican agents and payments to political consultants.

At last count, Mr Earle had issued over 50 subpoenas: to Mr DeLay's daughter, to the state House speaker, Tom Craddick, and to Governor Rick Perry's chief of staff, among others. They all deny wrongdoing; and Mr DeLay accuses Mr Earle of waging a partisan witch-hunt.

Mr Earle, who was first elected in 1976, brushes off the attack. Being called names by Mr DeLay, he says, is like being called ugly by a frog. He adds that over the past three decades, he has prosecuted 15 elected officials: 11 Democrats and four Republicans. What is happening now, he says, is a replay of the time of the 19th century robber barons, when large corporations used their influence to control the government's regulatory functions.

Mr Earle's investigation began with relatively little fanfare in early 2003, after a Republican had been installed as House speaker for the first time since 1873. The investigators soon focused on Texans for a Republican Majority, a political action committee set up by Mr DeLay and his aides. The committee dreamed of Republican-friendly redistricting; but its hopes were always being dashed by the Democrats in the state legislature.

The group was not short of money, with $600,000 from companies and $900,000 from individuals. One particular transaction caught the investigators' attention: a $190,000 transfer of corporate “soft” money from the Texan group to the Republican National Committee (RNC) in Washington. Less than a month later, an RNC affiliate sent precisely $190,000 back in coveted “hard” dollars to seven Republican candidates in key Texas House races. Republicans offer a one-word explanation: coincidence.

No doubt, the Republicans pushed the limits of the complicated campaign-finance laws. But why did they mess with company money in a place like Texas, where wealthy individuals can and do give almost unlimited sums legally?

One verdict is already in: the Republicans are guilty of third-degree stupidity. Yet if stupidity were a

crime, as many have observed, there would be nobody left to run the government.

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Medicare

Crunch-time coming

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Concern, but no action, on rising health-care costs for the elderly

CONGRESSIONAL jowls quivered with grave concern. For this week the trustees who oversee Medicare, the government's health-care programme for over 40m elderly and disabled Americans, said the programme will be bankrupt by 2019, seven years sooner than previously thought. Last year, the trustees thought that Medicare would continue taking in more in taxes than it pays out for patients until at least 2013. Now, they say it could be paying out more as early as this year.

The shock is pure theatre. Congressmen know very well that Medicare is an almost open-ended entitlement for which more and more baby-boomers will be eligible as they reach retirement age. Only last November, Republicans in Congress voted through a new Medicare law which, among other things, will help the old pay for prescription drugs, adding about $500 billion to the Medicare bill over the next ten years. And Democrats wanted a costlier version.

The new law, according to the trustees, accounts for two of the seven foreshortened years. Lower tax revenues and rising health-care costs account for the other five. The report underlines how it is Medicare, rather than Social Security, the government's bigger pension scheme, that will be the albatross around the taxpayer's neck. The trustees expect Medicare to overtake Social Security in size in 2024. For what such long-term projections are worth, the present value of Medicare's unfunded liability over the next 75 years is $27.7 trillion. Social Security's unfunded liability is a snip at $3.7 trillion.

As it is, Medicare's cost has risen from 0.7% of GDP in 1970 to 2.6% of GDP today, or about $280 billion a year. The biggest part of that spending goes on hospital care, for which employers and employees together pay a 2.9% payroll tax, and it is the hospital trust fund that is predicted to go bust in 2019.

Social Security will be easier to restrain than Medicare. For instance, the retirement age can—and certainly will—be raised. Yet in the case of Medicare, according to the Congressional Budget Office, raising the eligibility age from 65 to 70 would lower costs by just 9% and do little to tackle the long-term budget problem. An alternative, cutting the share of costs picked up by government, would be hugely unpopular, since it would force health-care providers to cut their levels of care.

The solution will have to be greater competition in the Medicare market. The present structure is Soviet in its complexity, with a thicket of fees laid down for different services. More private health plans for the elderly would help, too; but to encourage these, patients themselves will need reasons to favour cost-effective care. You will not hear a debate about all this from the presidential contenders.

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Lexington

John Kerry, flip-flopper?

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One accusation that ought not to stick

THE Bush campaign has begun a 90-day media blitz to define John Kerry as a serial waffler, bet-hedger and panderer. They are having a whale of a time. On the Republican National Committee's website, you can play an interactive boxing match: Kerry v Kerry. Click a glove. Pow! He's for gay marriage (the site gives details of his position). Click again. Zap! He's against gay marriage (contradictory details). And so on for 30 rounds, each an example of Mr Kerry supposedly on both sides of every issue.

The assault is having an effect, or was before Richard Clarke's book embarrassed the president. Mr Kerry has lost both his poll lead and the aura of triumph from his party's primaries. In that sense, the campaign against him is already working. But is it true? Is Mr Kerry really incoherent and expedient? And if he is, what does that tell you about the sort of president he might be?

Start by conceding that a certain amount of flip-flopping is inevitable in “the art of the possible”. For example, what would you call someone who opposed setting up a Department of Homeland Security one minute and espoused the idea the next? Or who claimed to be a staunch free trader—right up to the moment he imposed illegal tariffs on imported steel? You'd call him George Bush.

Sometimes, flip-flopping is even desirable. Mr Bush was transformed by the attacks of September 11th 2001 from a cold war great-power nationalist to the democratiser of the Arab world (though with little to show for it so far). Some of America's most successful presidents—Franklin Roosevelt and Eisenhower, for instance—were accused of having no fixed moorings and of endless tactical flexibility.

So the proper question is not, has Mr Kerry changed his mind? It is, has he done it so often that he is just a weather-vane? And the answer must be no. True, there is a long list of issues on which he has changed his tune. But many of these fall into one of two categories where changes of mind ought to be regarded as commendable or at least understandable.

The first category embraces issues on which he changed for the better. In 1988, Mr Kerry voted against a proposal requiring welfare recipients to work a few hours a week. In 1996, he voted in favour of a welfare reform imposing far stricter work requirements. This was inconsistent. It was also justified. The 1996 welfare reform was one of the great successes of the Clinton presidency. Similarly, Mr Kerry used to oppose the idea of expensing stock options, arguing that to do so would hurt high-tech start-ups. But after the stockmarket bust, and as evidence grew that unexpensed options caused market distortions, he

altered his line. As John Maynard Keynes said, “When the facts change, I change my mind. What do you do, sir?”

The second and larger category consists of Senate votes that look contradictory taken out of context, but make sense once the context is added. Many Senate bills exist in similar drafts, and the final version frequently includes obnoxious provisions that have nothing to do with the substance of the bill itself. Senators then face an unenviable choice. Do they back the bill, with the extra provision they would otherwise have opposed? Or do they vote against a bill they support? No wonder no sitting senator has won the presidency since Kennedy. With 19 years of such nuanced votes to account for, Mr Kerry is especially vulnerable.

His idiotic statement about the $87 billion Iraqi reconstruction package—that he voted for it before he voted against it—reflects such problems: it accurately describes how he voted on different versions of the bill. He also endorsed ending the double taxation of dividends as part of a wider tax reform, but voted against it as part of a tax cut. Inconsistent, but understandable.

Such problems are awkward for all senators. In Mr Kerry's case, they are compounded by a tension between the needs of representing liberal Massachusetts and his own, sometimes more hawkish, views on matters such as national security and welfare reform.

Resolve v realism

Of course, not all his flip-flops can be explained away. To different audiences, he has supported and criticised Israel's security fence. He voted for the Iraq war resolution, criticised the manner in which Mr Bush went to war, and refused to say whether he thinks the action was, on balance, justified. He has abandoned some brave stances against Democratic dogma—such as supporting Social Security reform or earlier challenges to restrictive practices by teachers' unions.

So his record contains inconsistencies. But these are individual failures. They do not add up to any fundamental incoherence of political philosophy. In that sense, the main charge against Mr Kerry is false.

To the Bush team, that is irrelevant. They are not concerned about the substance of Mr Kerry's views. Indeed, when they do turn to substance later this year, they will almost certainly criticise him not for inconsistency, but for the opposite: for being consistently liberal. The attack on “flip-flopping” is really about image: a vacillating Mr Kerry highlights the president's image as a man of immovable resolve at a time of national danger.

Yet, almost inadvertently, this debate over image and inconsistency tells you something profound about the candidates. When Mr Bush reverses himself (in abandoning his promise to run a “humble” foreign policy, for instance) he does so boldly, almost spectacularly. There is no attempt to explain the shift. One set of principles succeeds another, as if the earlier views never existed. Mr Kerry's reversals, on the other hand, are products of subtly shifting nuance as he tries, and fails, to strike a balance between competing views. The one approach shows resolution, and a tendency to exaggeration; the other, a tendency to waffle, but also a grasp of how complicated political realities can be.

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Brazil's judiciary

Not-so-swift justice

Mar 25th 2004 | BRASÍLIA
From The Economist print edition

How to reform Brazil's justice system

Get article background

BRAZIL's president, Luiz Inácio Lula da Silva, makes friends more readily than enemies. The chief judge of the Supreme Court, Maurício Corrêa, is a conspicuous exception. Since Mr da Silva took office last year, the two men have sparred in public over the independence of the judiciary, economic policy and cuts in pensions for public servants, including judges. Lula has called the judiciary a “black box” and promised to prise it open. “The president does not understand the workings of the judiciary,” retorts Mr Corrêa.

Mr da Silva created a new job—a secretary of judicial reform in the justice ministry—to sort out his least-favourite branch of government. He has given new impetus to an ambitious package of measures that has been languishing in Congress for a dozen years. While most other Latin American countries have reformed their judiciaries over the past two decades, Brazil has resisted. Most Brazilians now think it is time for change. With the government suffering from a crisis of confidence brought on by a corruption scandal, Lula is more eager than ever to give it to them.

Brazil's judiciary is dysfunctional: agonisingly slow, beset with frivolous cases designed to evade justice and enmeshed in useless procedure. The 16,900 judges seem old-fashioned, out of touch and unaccountable to the citizens they serve. A police operation called “Anaconda” last year caught judges selling favourable sentences to criminals. That, plus an unseemly threat by judges to strike over their pensions, has stirred popular anger. The return of democracy in the 1980s and the contentious economic reforms that followed thrust the judiciary into the centre of Brazilian life. Yet, while Congress and the executive reinvented themselves through elections, the judiciary became encrusted with new layers of complication.

All this drains Brazil of money and morale. Armando Castelar, an economist, concluded from a survey of businessmen that GDP growth is a fifth lower than it would be if Brazil's judiciary were up to first-world standards. A United Nations observer recently noted that just 7.8% of the 49,000 murders committed every year are “prosecuted with success”. Colonel Ubiratan Guimarães, condemned to 632 years in prison for leading a police massacre of 111 inmates at a São Paulo's Carandiru prison in 1992, has a right to a second trial and so, unlike his victims, has yet to begin his sentence.

Opening the black box

The clash between Lula and Mr Corrêa conveys a false impression of clear battle lines and stark choices. In fact, the quarrelling Olympians agree on much, especially the appalling slowness—Brazilians call it *morosidade*—of the judicial system and on some ways to correct it. While the government damns the judiciary as aloof from society, investors have the opposite complaint: that judges ride roughshod over contracts to produce socially benign results. It is the government that stuffs courts with frivolous cases to avoid paying debts; judges who demand compliance see themselves as people's champions. And while Lula clamours for reform, parts of the judiciary have embarked on their own “silent reform”.

Morosidade is the product of forces largely beyond the judiciary's control. A partial list includes nearly endless rights of appeal, not merely against a verdict but against minor decisions along the way. Since one court's rulings are not binding on another, a single legal question can be tried separately thousands of times. In criminal cases, the police are as much a bottleneck as the courts, if not more so. The 1988 constitution, a hotch-potch of social and economic rights, encourages appeals in even trivial disputes to the Supreme Court. Its 11 judges dealt with 164,000 cases last year, laments Mr Corrêa; the United States' Supreme Court decided on fewer than 100.

Debtors of all kinds, especially the government, wallow happily in the procedural swamp. “We are crammed full by the government itself,” says José Carlos Motta, president of a special court that deals with pensioners claiming their rights to have benefits adjusted for inflation. Bankruptcy cases, which commonly drag on for a decade, discourage banks from lending and raise the cost of credit.

The most urgent requirement, reckons Mr Corrêa, is to streamline the procedural codes that gum up the works. Both he and the government want to consolidate the three phases for conducting a lawsuit into one. More controversial is the *súmula vinculante*, which would make Supreme Court decisions binding on lower courts. Lawyers and lower-court judges claim that precedent would smother judicial conscience, but the government backs it (reluctantly), and so may Congress. Such reforms could reduce the Supreme Court's caseload by 30-40%, Mr Corrêa guesses.

For a Jurassic institution, exempt from elections and economic pressure, the judiciary shows remarkable flashes of adaptability. In Mr Motta's “special court” for handling small claims against the pension system, the files that festoon a normal court are absent, replaced by paperless documents stored on computer; a battery of doctors stands by to determine whether disabled claimants really are ill; the losing party, usually the government, normally can appeal just once and most cases are settled within 18 months. According to Mr Motta, ordinary courts with the same manpower handle a tenth of the cases.

Rio de Janeiro's state court has been a juridical Silicon Valley. It started up a “big events” court to handle misbehaviour at Carnival and football games (a typical sentence: a visit to the police station timed for the next home fixture). An out-of-the-way nook of the state court building, equipped with three small bedrooms marked “prosecutor”, “defender” and “judge”, serves as a nocturnal court. Rio's judges have formed a “mutual help group” to help work off part of the backlog in their courts. Young judges “don't have a tradition of aloofness,” contends Elton Leme, a judge who advises the head of the Rio state tribunal. Their rise to top will make the judiciary as responsive as it needs to be.

The government, however, is determined to submit the judiciary to “some type of control by society,” says its judicial-reform secretary, Sérgio Renault. It advocates a 15-member council to monitor the management and probity of the courts. Six of its members would be non-judges, including two appointed by Congress. Mr Corrêa and many of his colleagues are fiercely opposed, spying an assault on judicial independence. Any representative of Congress will do the bidding of the executive, he fears, injecting a “political component” into the workings of the judiciary. Other mooted reforms include permitting federal courts to take over the trial of human-rights crimes (on the theory that state courts are more vulnerable to local influence) and financing management training for judges.

If part of the point is to equip the judiciary to handle the demands of a modern economy, both silent reform and the government's vocal one, ambitious as it is, fall short. Consideration for the “social” along with the merely commercial is inscribed in law, ingrained in the judiciary and could even be reinforced by external supervision. In a widely cited study, Mr Castelar found that, presented with a choice between upholding a contract and promoting social justice, three-quarters of judges would choose the latter. Housing mortgages barely exist, in part because judges are reluctant to allow banks to foreclose.

This is folly, but judges lack the experience and education to see that. Their careers usually begin early

and progress predictably, with promotion based on seniority and “merit” loosely defined. No problem, thinks Mr Corrêa: “A judge needs 90% good sense and 10% knowledge.” Perhaps, but the triumph of judicial instinct over knowledge can lead to disaster. Jairo Saddi, who teaches law at a private university, tells of a judge who immediately spotted fraud on being presented with a balance sheet: what else could explain the suspiciously exact match between assets and liabilities?

Lula has begun to inch open the black box, a task he will find easier when Mr Corrêa retires in May and the reformist Nelson Jobim succeeds him. Inside he will find a paradox: an institution as complex as a civilisation, both more enlightened and benighted than he imagines.

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El Salvador's election

Keeping to the right

Mar 25th 2004 | MEXICO CITY
From The Economist print edition

The old left bites the dust

Reuters

Another election, another Arena president

AFTER seeing one steadfast ally go down at the polls two weeks ago in Spain, the Bush administration may have been gratified to see its closest Central American ally glide through a similar test last week. On March 21st, the candidate of the right-wing National Republican Alliance (Arena) party, Tony Saca, won by a wide margin in El Salvador's presidential election. This small Central American country of 6m people—barely the size of Massachusetts—may not count for quite as much as Spain, but it still has boots on the ground in Iraq, where it has contributed a small, but symbolically important, force. And in a wobbly week for George Bush's “coalition of the willing”, his administration can be thankful for small mercies.

It was the fourth successive presidential victory for Arena, which has supplied all presidents since the country's civil war ended in 1991 and has staunchly supported America's policies in this once unstable region. Under the outgoing Arena president, Francisco Flores, El Salvador adopted the dollar as its national currency and, last year, led four other Central American countries in the negotiations to form a Central American Free-Trade Agreement (CAFTA), seen as a vital stepping-stone towards an eventual Free-Trade Area of the Americas, promoted by the United States.

The main opposition party and former Marxist guerrilla movement, the Farabundo Martí National Liberation Front (FMLN), had pledged to reverse all these policies. After riding high in the polls, the FMLN candidate, Schafik Handal, obtained only 36% of the vote. The country still lacks a centre-left, social-democratic party, and the most charismatic alternative candidate was running for a small centrist party with little grass-roots organisation. Choosing Mr Handal, a veteran guerrilla leader, as presidential candidate was a tactical mistake for the FMLN, as it provided Arena endless opportunities to portray him as representing a return to times of division and civil war. Arena also played off the fear that Mr Handal's anti-American policies would jeopardise the annual $2 billion flow of remittances—the largest single source of foreign exchange—that the country receives from the estimated 2m or more Salvadoreans living in the United States.

Mr Saca, a 39-year-old former sports broadcaster and businessman with virtually no political experience at all, promises more of the same. This should help keep the economy as the most dynamic in the region for some time to come. Eduardo Zablah, the general co-ordinator for the new government's agenda, outlines an ambitious trade policy that includes trade agreements with Canada, the European Union,

Japan, Taiwan and South Korea. He also promises to keep troops in Iraq.

Yet, for all the country's economic success, poverty remains high outside the urban areas, and the FMLN still has the largest number of seats in Congress. So Mr Zablah also says that increasing economic and social development in the rural areas will now be a priority. Any sign of success would surely consign the old-fashioned central American leftism of the FMLN to the history books.

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Chile's conservative opposition

Uneasy bedfellows

Mar 25th 2004 | SANTIAGO
From The Economist print edition

The conservatives struggle to keep their opposition together

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UNTIL recently, it was widely assumed that, at the next election, Chileans would turn away from the tired centre-left Concertación coalition, in power since the end of General Augusto Pinochet's dictatorship in 1990. Now, the outlook does not seem as clear. Following several years of slow growth, the economy is looking up. But the Concertación's main asset is the conservative opposition Alliance for Chile, which has once again demonstrated its prowess at tearing itself apart.

Earlier this month, the Alliance's larger party, the Independent Democratic Union (UDI), broke off relations with the leader of National Renewal (RN), its partner. Trouble had started in October, when Pía Guzmán, a congresswoman for RN, alleged that two Alliance politicians—later identified as the two UDI senators for Santiago—were clients of a sado-masochistic sex ring that abused homeless adolescents. The UDI claimed that the allegations were part of a plot to discredit the party and damage the popularity of Joaquín Lavín—the Alliance's presidential standard-bearer and a UDI member—in Santiago, where a third of the country's population lives. The resulting furore within the opposition spiralled out of control when it emerged that the UDI had presented a witness who gave the courts false evidence that implicated RN's leadership in the supposed plot.

On March 9th, Mr Lavín asked the presidents of both parties to stand down. His intervention has achieved a temporary halt to the hostilities but has left RN—whose entire leadership resigned—in disarray and added fresh resentment to old divisions. The two Alliance parties have long been rivals bound together only by an electoral system which forces the country's political parties into two blocks. Moreover, the coalition has never built a mechanism to settle disputes.

Francisco de la Maza, one of Mr Lavín's closest advisers, is confident that a municipal election, to be held in October, will help rebuild bridges. Mr Lavín has taken the selection of candidates—another bone of contention between the two parties—out of their hands and appointed a committee to chose the “best” candidates, independently of party allegiance. According to Mr de la Maza, that will be a turning-point for the coalition.

Voters, however, are sceptical. According to a recent newspaper poll, 73% believe that the Alliance's squabbles are undermining Mr Lavín's chances in next year's presidential election, and another survey showed that less than a quarter believe that his recent intervention will improve relations within the coalition. Even in the Alliance, the question of whether he is the right candidate is now often answered with a resigned “Who else?”

Yet Mr Lavín came close to defeating President Ricardo Lagos in the 1999 presidential race, and his popularity has survived his mediocre performance as mayor of central Santiago. This is largely because he has pandered to voters' disillusionment with party politics and has focused on simple and practical issues. But this above-politics image has been tarnished by his intervention in the Alliance's crisis, and his fate now rests on his ability to restore order among his unruly supporters.

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Antigua's election

Bye bye, Birdie

Mar 25th 2004 | PORT OF SPAIN
From The Economist print edition

The end of a political era

AP

Spencer kicks out the Birds

“JUDGMENT day!” thundered the crowd in Antigua's tiny capital, St John's, as the new prime minister, Baldwin Spencer, made his victory speech at 3am on March 24th. The street party and steel bands played on well past dawn. It was the end of an era, with only four of 17 seats going to the Bird family's Antigua Labour Party (ALP), which, but for a short break in the 1970s, had been in power since the first universal suffrage elections in 1951. The outgoing prime minister, Lester Bird, and his brother, the agriculture minister, Vere Bird junior, both lost their seats. Their father, Vere Bird senior, had dominated island politics from the 1930s until he retired ten years ago at the age of 84. His sons learned some of his skills, but lacked his charisma.

In earlier polls, fierce loyalty from the ALP's “comrades” pulled the Birds through a series of scandals that would have rocked lesser mortals. In 1990, Vere Bird junior and the commander of the island's defence force were implicated in a plot to supply Israeli weapons to the Medellín drugs group in Colombia.

What made this election different? Nine out of ten people turned up to vote. At 4.30am on election day, an hour and a half ahead of opening time, voters were already lining up in front of voting stations. A small team of Commonwealth observers helped ensure fair play, and the nagging fear of an apparently all-powerful government seemed to evaporate. For much of last year, the government was unable to pay salaries on time, testing the loyalty of state employees, who make up almost a third of the labour force. Scandals continued: an inquiry into the government's health scheme recommended the prosecution of two former ministers. And an independent radio station challenged the airwave dominance of ZDK radio, run by another Bird brother, Ivor.

Mr Spencer's United Progressive Party (UPP) showed a new professionalism and made the fight against corruption a central campaign issue. It also made some expensive campaign promises. Yet the island's main industry, tourism, has been stagnant since 1994, and promised investments have so far failed to materialise. Though the figures are murky, public debt is estimated at a staggering 140% of GDP, much of it commercial borrowing carrying high interest rates. UPP supporters say ending waste and mismanagement will free the necessary funds. But getting the sums right won't be easy.

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Taiwan

Independence day?

Mar 25th 2004 | TAIPEI
From The Economist print edition

Even the Kuomintang is starting to take more account of the Taiwanese desire for greater freedom from China

Get article background

“THIS makes us feel like maybe we are the Philippines or one of those third-world countries.” So complained Su Chi, a spokesman for Taiwan's Kuomintang (KMT), as thousands of his party's supporters rallied in front of the presidential palace in Taipei in protest against the outcome of the island's presidential polls on March 20th. Mr Su was not referring to the air-horn-blasting demonstrators, but to the events that had riled them. In particular, the KMT insinuates that the shooting of President Chen Shui-bian on the day before the ballot may have been rigged to gain sympathy for the incumbent, who won by a tiny margin.

Suddenly, after more than a decade of remarkably smooth transformation from one-party authoritarianism to multi-party democracy, Taiwan has hit a bumpy patch. The KMT and its allies have called the election unfair and have refused to concede defeat. Ironically, the one-time party of the establishment has taken to the streets. Disdainful though they profess to be of Philippines-style politics, some of its leaders, including the presidential aspirant and party chairman, Lien Chan, and his running-mate, James Soong (who heads the smaller People First Party), apparently hope that “people power” will force Mr Chen to bypass cumbersome legal processes and order a recount or, if that fails to secure them victory, another election.

On Thursday, Mr Chen had agreed to a recount, but his Democratic Progressive Party (DPP) was still bickering with the KMT over how this should be done—whether by presidential order (which would be quicker, says the KMT) or by introducing a new law mandating a re-count when the margin of victory is less than 1% of the vote. Mr Chen won by a mere 29,518 votes out of 13.3m cast. KMT leaders appeared divided over their tactics—whether to press for a recount, or insist on a whole new election.

Without the shooting, and given how close the race had been, Mr Chen might well have lost. He and his vice-president, Annette Lu, who at the time was standing next to him in an open-topped jeep, sustained only minor injuries. But the incident dominated the news in the final hours before the vote. The KMT accuses Mr Chen of being deliberately slow to release full details of the incident in order to fuel suspicion that the wounds were graver.

China would certainly have liked the KMT to win. It is afraid that Mr Chen will use a second term of office to push forward more forcefully his efforts to assert Taiwan's separateness from the mainland. Mr Chen has said he would like to conduct a referendum in 2006 to gain approval for a new constitution for the island. China worries that this constitution will abandon the island's claim to be part of Chinese territory. It is also concerned that Mr Chen may regard Beijing's hosting of the Olympic Games in 2008 as an opportunity to press for independence, given that China would not want to ruin the event by going to war.

But would Taiwan under a KMT leadership really be much more compliant? Whatever the outcome of the current furore (few expect the result to be reversed), Taiwan's dealings with the mainland will remain fraught. In the months leading up to the presidential poll, the KMT—hitherto an advocate of eventual reunification with China—shifted its stance in order to win over an electorate that increasingly regards itself as Taiwanese rather than Chinese. Mr Lien echoed Mr Chen's notion that Taiwan and China are already separate states. A senior KMT official even suggested that formal independence may one day be a possibility.

But its past still haunts the KMT. Among the middle-class protesters who have joined continuous rallies outside the presidential palace this week, some furiously denied that the KMT espouses reunification. Traditional DPP supporters are unconvinced. They are mainly concentrated in the south of the island and are resentful of the KMT's mainland origins and its erstwhile suppression of Taiwanese culture. Chao Chien-min of Taiwan's National Chengchi University says accusations that the KMT agreed with China's Communist leaders on the notion of “one China” provided the DPP with a very effective weapon in its campaign for Mr Chen's re-election.

Many KMT supporters accuse Mr Chen of fuelling tensions between mainlanders (or their descendants) who arrived at the end of the civil war and other ethnic Chinese whose ancestors migrated to the island in the preceding centuries. Chu Yun-han of National Taiwan University says support for or opposition to reunification is no longer the main dividing issue. It is whether Taiwan should maintain the status quo or seek formal independence (and if so, how fast). This challenges a tenet of America's relationship with China, the “Shanghai Communiqué” of 1972, in which America acknowledges that “all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China”.

Some in the KMT (whose full name, as DPP politicians like to point out, translates as ‘the Chinese Nationalist Party') realise the need for change. Assuming he loses, in the coming months, many expect Mr Lien, who was born on the mainland, to step aside in favour of a younger politician with stronger appeal to native Taiwanese. The Taiwan-born speaker of Taiwan's legislature, Wang Chin-pyng, is often suggested as a candidate. Another likely contender is Ma Ying-jeou, who is mayor of Taipei. Mr Ma was born in Hong Kong of mainland parents, but his charisma gives him wide appeal.

Taiwanese identity is only likely to get stronger. In recent years, school curriculums in Taiwan have changed to give much greater emphasis to Taiwanese culture, history and language. Wen Ming-Cheng, the principal of Dong Men Primary School in Taipei, says most members of his generation would identify themselves as Chinese. “Now if you ask [the children] who is Chinese, only one or two will put their hands up. And if you ask them why, they will say their parents told them.”

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Malaysia's election

Bravo Badawi

Mar 25th 2004 | KUALA LUMPUR
From The Economist print edition

Dr Mahathir's old party has done better without him

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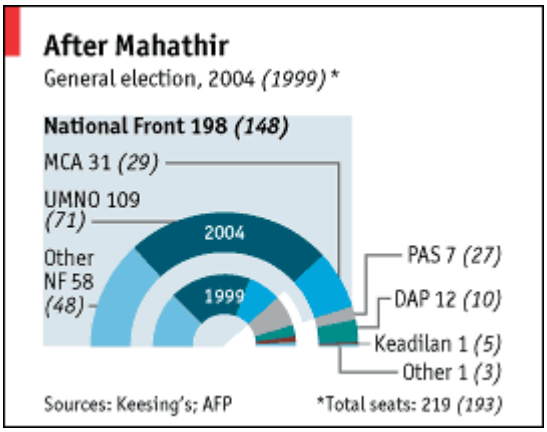
THE National Front coalition may have won every election since Malaysia's independence, but it has not won by such a crushing margin in decades. On March 21st, voters awarded it 90% of the seats in the national parliament, up from 77% in 1999. It also won control of 11 of the 12 state governments at stake, while its share of the popular vote rose from 57% to 64%. Meanwhile, the biggest opposition party, the Pan-Malaysia Islamic Party (PAS), retained only seven of the 27 national seats it held in 1999, was practically obliterated in one of the two states it had controlled, and held on to the other by the thinnest of margins. So were the voters endorsing the status quo, and rejecting criticism of the government? Not exactly: the result was a victory for the opposition's ideas, though not for its parties.

Dumbfounded opposition leaders are denouncing the conduct of the election and calling for a new one. They point to a study of the electoral roll conducted before the poll which found a worryingly high proportion of false or incomplete addresses, and untraceable or suspicious names—including 156 people registered at the same address. They also complain about the short campaign period, media bias, gerrymandering and lack of funds. Yet the opposition faced similar obstacles in 1999, and did much better.



Another explanation holds that voters from the country's Malay Muslim majority spurned PAS's dogmatic vision of an Islamic state in favour of the Front's more progressive approach. It is certainly true that Malay voters deserted PAS in droves in Kelantan and Terengganu, the two states it had won decisively in 1999. Many of them, especially women and the young, doubtless chafed at PAS's edicts banning rock concerts, encouraging modest dress, and separating the sexes in supermarkets and on beaches.

But the National Front, despite condemning PAS as reactionary zealots, itself takes quite a doctrinaire approach to Islam, especially in areas with lots of conservative Muslim voters. It matched PAS's call for an Islamic state with a declaration that Malaysia already was one. Just before the election, it tried to defuse PAS's campaign in favour of private Islamic education with an announcement that Malay students would have to study Arabic and the Koran in state schools. One National Front state government even encourages polygamy. A big selling point of Abdullah Badawi, the prime minister and National Front leader, is his degree in Islamic studies.

Mr Badawi was indeed an important factor in the election, but probably as much for his unsullied and gentlemanly reputation as for his Islamic credentials. He came to power only last October, upon the retirement of Mahathir Mohamad, the prime minister of 22 years. At the previous election, voters seem to have blamed Dr Mahathir both for the struggling economy and for the high-handed and corrupt ways of Malaysian officialdom. They also associated him with the unjust treatment of Anwar Ibrahim, finance minister and deputy to Dr Mahathir, who was sacked, jailed and beaten in 1998. By retiring before this

election, Dr Mahathir deprived his critics of their most emotive issue.

By contrast, Mr Badawi, or “Pak Lah” as Malaysians affectionately call him, is a breath of fresh air. In his five months in office, he has launched a counter-corruption drive, called for an inquiry into the police force and scrapped an extravagant construction scheme. In the election campaign, too, he stole the opposition's thunder by promising humbler, cleaner and more responsive government.

PAS and Keadilan, a party founded by disgruntled supporters of Mr Anwar, dismiss Mr Badawi's soft spot for good governance as a campaign ploy. Dr Mahathir, too, they argue, sold himself as a reformer at first. What is more, the senior echelons of the United Malays National Organisation (UMNO), the main component of the National Front, are still packed with the sort of politicians that the electorate turned against in 1999.

Before this election, Mr Badawi's supporters argued that he did not yet have enough authority to overhaul UMNO or the government wholesale. He had, after all, been appointed deputy prime minister by Dr Mahathir and then inherited the premiership without an election. His thumping victory at the polls, however, should put such concerns to rest. So Mr Badawi's choice of ministers next week, and his selection of office-holders within UMNO at the party's conference in June, will provide the first unambiguous test of his sincerity as a reformer.

There is one item on the opposition's agenda, however, that Mr Badawi seems likely to neglect. So far, he has barely mentioned, let alone dismantled, the various repressive measures that Dr Mahathir employed to dampen dissent. The government still controls the airwaves, potential critics have difficulty obtaining newspaper licences, opposition politicians are jailed without trial, protest rallies are banned. As one activist points out, when the government's critics are cowed, the corruption and inefficiency Mr Badawi says he is battling are sure to thrive.

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Sri Lanka's election

Two nations divided

Mar 25th 2004 | COLOMBO
From The Economist print edition

Elections are unlikely to bring a stable government

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AP

President Kumaratunga takes on the prime minister

DURING two decades of civil war and two years of ceasefire, Sri Lankan politics have been a study in contrasts. On one side, the parties of the Sinhalese majority have been bitterly divided, regularly swapping power. On the other, the grimly monolithic Liberation Tigers of Tamil Eelam, fighting for an independent homeland for the Tamil minority in the north and east of the island, have brooked no dissent. They have also shunned mainstream politics. The general election to be held on April 2nd is therefore a novelty: not only are the Tigers, through their political proxies, contesting them; but they have also suffered an unprecedented split.

The election follows the breakdown of an acrimonious two-year "cohabitation" between the two main Sinhalese parties, the Freedom Party of the country's president, Chandrika Kumaratunga, and the United National Party (UNP), led by the prime minister, Ranil Wickremesinghe. The Tigers decided to use the poll to back their claim to a mandate as the Tamils' sole representative in peace talks.

They are now in disarray, after their commander in the east, known as Colonel Karuna, broke away early this month, complaining about the domination of the movement by northerners, and claiming the backing of several thousand Tiger fighters. Most observers assume it is only a matter of time before the northern command, under the Tigers' ruthless leader, Velupillai Prabhakaran, resolve the dispute in their traditional manner: bloodily. But the Tigers are reluctant to act before the election. A display of their unreformed brutality would presumably favour the Freedom Party, seen as a tougher partner in peace negotiations. The president has regularly denounced and tried to block attempts by the prime minister to make peace with the Tigers.

The Tigers' proxies, an alliance of sympathetic parties and their own nominees, benefit from campaigning in what is in effect a one-party sub-state, where rival candidates face harassment, or worse. They expect to win 15-20 of the 225 parliamentary seats, a potentially crucial block if the result of the election is as close as expected. They are unlikely to join a government, but might however acquiesce in a minority UNP administration. This would thwart Mrs Kumaratunga, who hopes to use victory to amend the constitution. By doing so, she hopes to be able abolish the executive presidency before her own term ends, and Mr Wickremesinghe has a chance to step into her shoes.

The other likely gainer in the polls is another minority party, the Janatha Vimukthi Peramuna (JVP), a leftwing group known for its extreme Sinhalese chauvinism that is now in alliance with the president's Freedom Party. Its main appeal has been its campaign against the perceived corruption of the UNP administration.

The JVP is opposed to concessions to the Tigers, so there are fears for the peace process if the alliance wins. However, there is next to no constituency for a return to war. Indeed, people are not, apparently, even worrying about one. So confident are they in their enduring ceasefire that an opinion poll taken earlier this month showed that peace was less of an issue in the election than rising prices.

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China

In the dark

Mar 25th 2004 | BEIJING
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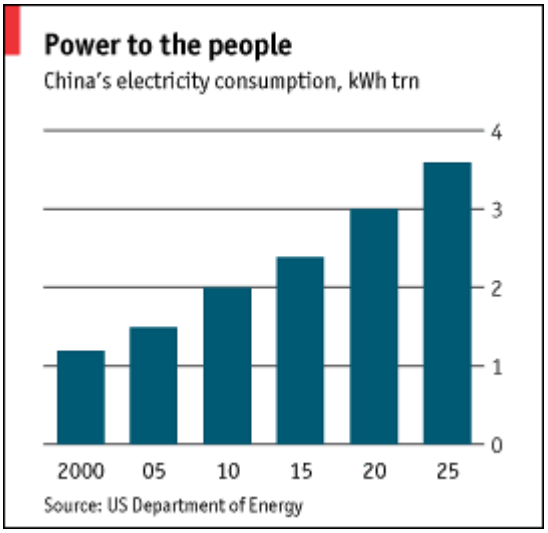
Where will the gigawatts come from?



BACK in 2000, when they were expecting a five-year run of single-digit annual increases in national power-demand, Chinese policymakers were fretting about the likelihood of a power glut, and wondering how they might absorb the output from new generating stations as they came online. Instead, demand increases ranged between 10% and 15%, and they are likely to continue at that rate. As a result, planners are now wondering instead how they will keep the lights on.

In fact, they do not always manage it. In 21 provinces across China since last year, power shortages caused homes to fall dark and factories to fall silent. According to state media, some cities even lacked the power they needed to run their traffic lights. Among the hardest hit provinces has been Hunan in southern China, where drought conditions cut into Hunan's own hydropower production, and tight supply across the rest of the country made it hard to buy either coal or electricity from other provinces. Since last November, the provincial capital, Changsha, has been forced to institute rolling blackouts, leaving some residents without power in their homes for one day out of every three.

Officials in Hunan and elsewhere expect things to ease soon as water levels recover, but experts give warning that supplies will tighten again in just a few short months. When summer's heat hits, and China's ever-expanding middle class reaches to switch on the air conditioning, China's power grid will once again creak under the strain.

China has been adding new capacity at a frantic rate in the past two years and continues to do so. The central government approved more than 40 power stations last year, and brought most of them online, adding 30 gigawatts in new capacity. Another 37 gigawatts worth of new power is due to be added this year. But the increase alone in China's power demand over the past two years has approximated the total electricity consumption of Brazil. With an economic growth rate likely to hover around 7%, and standards of living set to keep rising, at least for China's hundreds of millions of urban dwellers, demand is likely to outpace supply for a while yet.

According to Liu Shijin, Director of Industrial Research at China's State Council Development Research Centre, conservation will be one key to resolving the imbalance. He says China's energy efficiency lags far behind nations like Japan, and estimates that, with effective measures, China could, by 2020, meet one fourth of its new power needs with saved energy.

For the rest, China knows it will increasingly need to rely on imported energy. China imports about one third of its crude oil now, and expects to be importing half by 2010. Its diplomats are showing a sudden interest in the complexities of the far-off Middle East. Its geopolitical strategists and naval planners, meanwhile, are thinking hard about the need to secure shipping lanes and supply routes.

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Afghanistan

The wild west

Mar 25th 2004
From The Economist print edition

Factional clashes in Herat

AFGHANISTAN has lost another minister to violence. On March 21st, the minister for civil aviation, Mirwais Sadiq, was assassinated in Herat. The exact circumstances remain murky, but Ismail Khan, the powerful governor of the western province, blamed a local military commander loyal to the central government, Zahir Nayebzada, for the death of the minister, who was also his son. What is clear is that, almost on the eve of elections scheduled for June, Afghanistan remains dangerously plagued by factional rivalries.

Mr Sadiq's death sparked off heavy fighting—involving tanks and artillery—between troops loyal to the governor and to the military commander, leaving over 100 dead. Mr Karzai convened an emergency security meeting and sent his army to Herat to restore order. By the next day, however, Mr Khan's forces had taken control, Mr Nayebzada had fled, and some sense of calm was restored.

Being a minister is a risky job in Afghanistan. The previous aviation minister, Abdul Rahman, was killed at Kabul airport two years ago, and a vice president, Haji Abdul Qadir, was shot coming out of his office a few months later. President Hamid Karzai himself narrowly escaped death when a gunman shot at his car while he was in Kandahar in September 2002; he was probably saved by his American guards. But in the Afghan context—where the south has become a no-go area for aid workers and the north has been plagued by regular clashes between rival warlords—the province of Herat, ruled with an iron fist by Mr Khan, an Islamic hardliner and a hero of the anti-Taliban resistance, was seen as relatively stable. The incident also underlined the inability of the American-led coalition, which maintains a military team in the city, to maintain stability.

Mr Khan has been a thorn in the flesh of Mr Karzai's government, which has tried to impose its authority on unruly warlords. The governor has ruled his province with considerable independence, and has in the past failed to transfer hefty customs revenues to the central government. Last year, he was stripped of his job as military chief of the province. This has not hit the governor's authority too much; he still maintains his own private army.

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Uzbekistan

The verdict

Mar 25th 2004
From The Economist print edition

How little difference one year makes

AP

Lemierre on the spot

TIME is up for the government of Uzbekistan. A year ago, shortly before it controversially held its annual meeting in Tashkent, the European Bank for Reconstruction and Development (EBRD) declared that if, within a year, Uzbekistan had failed to make progress on specified political and economic benchmarks, it would find it difficult to lend the country any more money. A decision is expected at the next board meeting on April 6th.

If there is any progress, it is scant. Opposition parties have been denied registration, without which they will not be able to participate in the elections next December. According to the Organisation for Security and Co-operation in Europe, press freedom is still non-existent, despite the lifting of official censorship in 2002. Human Rights Watch reports that human-rights activists, as well as independent Muslims, are still being persecuted, while torture remains widespread and its perpetrators largely go unpunished. None of the recommendations made over a year ago by the UN rapporteur on torture has been fully implemented.

In February, an elderly woman who had been pushing for an investigation into the death of her son, who died in prison and whose injuries suggested he had been thrown into boiling water, was sentenced to six years behind bars. Following international pressure, she was released on the eve of a visit to Tashkent by Donald Rumsfeld, the American defence secretary, who declared that Uzbekistan was a key security partner in the region. This is a conundrum for America, whose assistance is, in theory, also linked to human rights and economic progress and is expected to be reviewed as soon as next month.

On the economic front, at least, charges for water and electricity have been reformed, and the som was finally made convertible last October. But banks still make it difficult in practice to obtain foreign exchange, which keeps the black market healthy. Small-scale foreign trade, on which many Uzbeks depend for their shopping, remains strangled by government restrictions imposed over the past two years. Significant privatisation has, so far, not been forthcoming, and there are worries that state assets, whenever they are sold, will be grabbed by apparatchiks. When it comes to banks, which have been doling out money on government orders and clamping down on cash withdrawals, reform is little more than wishful thinking.

As Jean Lemierre, the head of the EBRD, recently put it, “the situation is not good, even if there is perhaps some progress.” As of December 2003, the EBRD had €527m ($660m) invested in Uzbekistan, just under half in loans to the government. It would be hard explaining why it should get any more.

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Israel and Palestine

Has the death of the sheikh really changed anything?

Mar 25th 2004 | GAZA AND JERUSALEM
From The Economist print edition

Reuters

The assassination of Sheikh Ahmed Yassin should not divert attention from deeper changes in Israeli politics

Get article background

THOSE two tangled entities—Israel and Palestine—that seem forever enmeshed in a web of violence and hatred have each entered a period of turmoil and flux that could lead either to some kind of agreed co-existence or to an even bloodier version of the stalemate that has long been a major cause of instability throughout the Middle East. The assassination by Israeli forces on March 22nd of Sheikh Ahmed Yassin (see article), a founder of the Islamic Resistance Movement, better known by its acronym Hamas, plainly marks a dangerous turn.

Rarely has Israel been so roundly condemned across the world; seldom has peace seemed so very far away. Various Palestinian groups swore vengeance—against targets abroad as well as in Israel. The prime minister of the fledgling but feeble Palestinian Authority (PA), Ahmed Qurei, said: “This is a crazy and very dangerous act—it opens the doors wide to chaos.” Israelis on the left denounced the action as irresponsible. The American administration was “deeply troubled” but fell short of outright castigation. The European Union said that extra-judicial killings “undermine the concept of the rule of law...a key element in the fight against terrorism.”

But the killing of the sheikh may also point up, perhaps even speed up, a process of change under way in both Palestinian and Israeli camps since Israel's prime minister, Ariel Sharon, declared in December that Israel would withdraw from the Gaza Strip. This coastal area, wedged between Egypt and Israel proper, where some 1.2m Palestinians live in surly squalor, is the lesser part of a would-be state of Palestine.

The Israeli promise to withdraw has raised numerous as-yet-unanswered questions, some of which Mr Sharon has yet to address. Would withdrawal be total? Probably, yes. Would all 7,500 Jewish settlers have to leave? Probably, yes. Would they be relocated to the West Bank? Not if Mr Sharon is to receive even qualified endorsement from the Americans when he goes to Washington next month. Would Israel leave troops in outposts throughout the strip? Maybe. Who would police the corridor marking the boundary between Gaza and Egypt? How much will the Egyptians be involved? It isn't clear.

But two much bigger questions have emerged since Mr Sharon's dramatic declaration. First, who among the Palestinians would fill the vacuum in Gaza—Hamas or more secular-minded groups, most of whom still follow Yasser Arafat, though his authority both in the West Bank (the bigger part of a mooted

Palestine state) and in Gaza, where Hamas has been particularly strong, has been ebbing? Mr Arafat himself is holed up in near-solitary confinement in a bombed-out compound in the West Bank town of Ramallah, a virtual prisoner of the Israelis. Mr Sharon and his allies at home (as well as the Americans) have said that they no longer consider him a worthwhile interlocutor. Could they ever eat those words?

The second big question concerns the durability of Mr Sharon's government in its present shape. And behind that lurks an even bigger one: whether his own Likud party, or at least a big part of it, may be reluctantly giving up its dream of a Greater Israel where Jews can live happily in their proclaimed historic homeland between the Mediterranean Sea and the Jordan River, and where Palestinians populate the West Bank without the prospect of a full-fledged state on it.

By most Israeli interpretations, killing Mr Yassin was mainly intended by Mr Sharon to show his doubters, especially within Likud, that he is not going soft on Palestinian terrorism and that his proposed withdrawal from Gaza should not be taken as a sign of weakness, as when Israeli forces withdrew from Lebanon four years ago. Moreover, Mr Sharon hopes that, by decapitating Hamas's leadership, he will weaken its ability to carry out suicide and other attacks against Israel. It has been made clear that all Hamas leaders, including Mr Yassin's successor, Dr Abdel Aziz Rantisi, are liable to be killed too.

Still, however fiercely Mr Sharon attacks Hamas, it is almost certain that two of Likud's three partners in government, the National Religious Party and the far-right National Union, will abandon Israel's ruling coalition if the decision to withdraw from Gaza proves irrevocable. So Mr Sharon, to keep a majority, will either have to team up with the Labour opposition or even face an election. He would probably win, though less comfortably than before, and would have to seek other coalition partners, again including Labour and perhaps others likely to be more flexible on the Palestinian question. To stay in power, the bellicose Mr Sharon will be tugged back towards the more negotiation-minded centre.

Hamas hunkers down

In the short run, that barely concerns Hamas. The day after the death of Mr Yassin (and seven other Palestinians in the same missile attack, as they came out of a mosque at dawn), the movement's swift naming of Dr Rantisi showed that there would be no vacuum in Hamas's leadership. Revenge, of course, is assured: “We will fight them [the Israelis] everywhere, we will hit them everywhere, we will chase them everywhere, we will teach them lessons in confrontation,” vowed the new leader as he received his mantle at a packed football stadium in Gaza.

For most Israelis, the wheelchair-bound Mr Yassin was neither a religious nor a spiritual leader. “He was a terrorist leader of a terrorist organisation”, said the army chief of staff, General Moshe Yaalon. The general said he hoped that killing Hamas's leaders would “encourage moderate [Palestinian] forces to prevent the founding of ‘Hamasland' in the Gaza Strip.”

Reuters

Bellicose but beleaguered

But moderation will have to wait. Some 200,000 Palestinians followed Mr Yassin's funeral procession. Smaller but equally angry demonstrations erupted in the Arab parts of Jerusalem, on the West Bank and in the Palestinian diaspora in Lebanon, Jordan, Syria and even Sudan. Meanwhile Yasser Arafat, head of the Palestinian Authority (PA) and still leader of the biggest of those “moderate forces” Israel expects to take over in Gaza, remains marooned in his Ramallah headquarters, assailed by Palestinians outraged by the Israeli action but powerless to do anything about it.

That powerlessness, concedes a PA minister, merely helps Hamas. “The Israelis say that because we have 20,000 armed police in Gaza, and Hamas has 600 armed fighters, we have the force to take them on. But we need political power to oppose Hamas and that can only come from a viable peace process and the real belief that the [Israeli] occupation will end,” he says. “As long as Israel continues the assassinations, the blockades [on the West Bank], and construction of the West Bank wall [to separate Israelis from Palestinians], the PA will not act. It *cannot* act.”

In any event, Dr Rantisi, who has understandably gone to ground, is likely to be even more radical than his predecessor. Mr Yassin justified and lauded suicide attacks on Israeli civilians. But his core constituency was Gaza's devout middle class, and he expended much energy overseeing the Islamic

charities and social services he had spent 30 years building up. More recently, in negotiations with the PA aimed at getting a ceasefire, he had sounded relatively more pragmatic. If, for example, a majority of Palestinians were to vote for a two-state solution and Israel withdrew to the 1967 ceasefire line that divides the West Bank from Israel proper, Mr Yassin said he would abide by that verdict and abjure violence—at any rate for the time being.

Dr Rantisi is hewn from grimmer rock, with support among Gaza's urban poor in refugee camps, villages and towns that have taken the brunt of the Israeli army's heavy hand. Unlike Mr Yassin, he has always opposed ceasefires, deeming them a sign of Palestinian weakness. He is said to believe that the *intifada* is the cauldron out of which a steelier "national-Islamic Palestinian movement" can be forged.

For the moment, it is his voice that will resonate loudest among Palestinians. Members of Mr Arafat's Fatah will have to lie low. One of its top men on the West Bank, Hussein al-Sheikh, who has been trying to persuade Hamas to agree to a truce, says it is pointless now to continue that quest. "This is the end of the so-called peace process," he said. "Now the Palestinians must realise that their only option is the *intifada* and more resistance. It's the only language Israel understands."

The Palestinian street

% of Palestinians in West Bank and Gaza answering yes*

Do you welcome Ariel Sharon's plan to withdraw from Gaza?	75
Is the withdrawal plan a victory for armed struggle?	66
Should Israel negotiate with [Yasser Arafat's] Palestinian Authority over the withdrawal?	58
Should Israel negotiate with Hamas over the withdrawal?	41
Is Mr Sharon serious and will he actually pull out?	33

Source: Palestinian Centre for Policy and Survey Research (www.pcpsr.org) *Preliminary

Trying to impress doubters at home

That does not seem to bother Mr Sharon. The assassination seems to have served one purpose—to win more support, especially in Likud and also in the armed forces, for his withdrawal from Gaza. Opinion polls suggest that 60% of Israelis approve of the assassination.

But the self-questioning and growing doubts within Likud will not go away. Mr Sharon appears to be backing off from his conviction that the West Bank is a historic and strategic necessity for buttressing Israel. Close allies in Likud say his "strategic vision" has shifted. An early test will be whether, as mooted, he removes some outlying Jewish settlements from the West Bank, as well as those in Gaza. If it is "Gaza first and last", the *intifada* will worsen. As it is, the violence shows little sign of fading. No one is winning the war.

If Labour comes back into a ruling coalition, pressure to seek out Palestinians with whom to resume negotiation will increase. Mr Sharon says he has always been ready to talk, provided that the PA "dismantles the structures of terror" and stops the suicide bombers from unleashing their terror in Israel. But Labour under Shimon Peres, the former prime minister who might become foreign minister, is likelier to acknowledge that the PA is in no condition to endure the Palestinian civil war that would ensue if it did turn against Hamas. Moreover, Mr Peres thinks that Mr Arafat must be brought back into the equation.

Meanwhile, they rot away

For the Palestinians, this is scant comfort. Mr Peres, they note, failed repeatedly to win an agreement when he was in power before. They see themselves being relentlessly choked into ghettoes on the West Bank, with travel between different parts of their truncated territory becoming harder than ever. Roadblocks and curfews make ordinary living a misery for many. While the Israelis say that the security barrier being built between Israel and the West Bank is already reducing the number of suicide-bombers coming across, the Palestinians see it cutting into their land as it curls round Jewish settlements, making a real Palestinian state look ever less likely.

But the barrier can come down, just as Jewish settlements can be vacated or dismantled—provided that the political will is there and that enough Israelis come to accept that only a proper Palestinian state, not a clutch of cantons, will bring peace. The killing of Mr Yassin has put such hopes aside for the moment. But even those Israelis who applauded that action may be slowly shifting their strategic ground when it comes to the future of the West Bank. In the long run, that, at any rate, is the one cause for cautious hope.

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Morocco and al-Qaeda

After Madrid

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The hunt continues

SIX Moroccans have so far been charged in Spain in connection with the Madrid bombings, along with two Indians and a Spaniard. But Moroccan and Spanish investigators have not yet found a clear link between that outrage and the suicide-bombings that killed 45 people (including 12 bombers) in Casablanca, Morocco's largest city, last May.

What investigators have found, apart from a certain similarity between the two operations (both involved several simultaneous explosions), are some personal contacts between suspects in the two countries. They have also discovered that Jamal Zougam, one of the main suspects in the Madrid bombings, visited Morocco a few weeks before the Casablanca explosions. Although the Casablanca bombers were relatively amateurish, Moroccan investigators believe they were organised, or at least encouraged, by the same Spain-based al-Qaeda cell thought to have carried out the Madrid bombings.

Morocco used to be an easy place for terrorists to operate in. Before security started to tighten in 2002, supporters of Osama bin Laden could move around and recruit without much hindrance in certain poor suburbs of Tangiers and other Moroccan cities. Their Afghan-style dress raised few eyebrows. In northern Morocco, as in neighbouring Algeria, the skilled forgers who keep economic migrants supplied with fake travel documents may unwittingly have helped terrorists on their way.

Moroccan investigators suspect that two Tangiers-born brothers, Salaheddine and Abdelaziz Benyaich, acted as a bridge between al-Qaeda operatives in Spain and the movement's admirers in Morocco. Both were among the 35 suspected militants indicted by a Spanish judge, Baltasar Garzon, last September. After the Casablanca bombings, Salaheddine, a veteran of the Afghan and Chechen *jihad*s, was picked up by the Moroccan authorities and sentenced to 18 years in prison. Abdelaziz is in a Spanish jail .

Another outfit under scrutiny is the Moroccan Islamic Combatant Group, which began as a gathering of Moroccan volunteers who had fought or trained in Afghanistan in the late 1990s. Mohammed al-Gerbouzi, widely reported to have been one of its organisers, has lived in Britain for years, but the British government is reluctant to extradite him, despite urgent Moroccan requests.

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Saudi Arabia

The limits of reform

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From The Economist print edition

Why six Saudi liberals are in jail, despite talk of change

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AFP

The chief mufti squeezes the crown prince

IF YOU thought that change was coming soon to Saudi Arabia, think again. Consider the six prominent Saudi liberals who have spent the past week in jail. Their crime is that, unlike seven colleagues arrested at the same time but freed soon afterwards, these recalcitrants refused to pledge that they will stop pestering the country's rulers to reform.

There are other countries where simply asking politely for more rights—in this case, by signing several petitions—can land you in prison. But Saudi Arabia had lately shed some of its aura of arch-autocracy. A mix of pressures—home-grown terrorism, criticism from abroad, and the general restlessness of their mostly youthful subjects—appeared to have awakened Saudi princes to the incongruity of running a large, modern state like a family ranch. The past few years have seen the start of a wide-ranging dialogue, in the press and in government-sponsored forums, to find ways to devolve at least a measure of power to commoners.

Tensions were bound to emerge, particularly in the absence of any elected assembly to air differences or frame a legislative agenda. Reform-minded citizens took to probing, to see just how far the establishment, which in Saudi Arabia means the 10,000-odd princes of the al-Saud family and their pampered traditional allies, the Wahhabi clerical hierarchy, would let them go. They soon encountered red lines. In the past year, for example, half a dozen newspaper columnists have lost their jobs for suggesting such things as abolishing the religious police, allowing women to drive cars, and opening the national budget to public scrutiny.

But a strong popular backlash against religious extremism following recent terror attacks, and the tacit backing of some senior princes, had lately encouraged the kingdom's normally quiescent liberals to further boldness. Despite warnings from the authorities, one group of them had the temerity to prepare yet another petition, demanding the right to set up a human-rights commission. (The government recently licensed an ostensibly independent body to monitor human rights, but most of its members are state employees.)

These are the men, most of them academics, now in jail. But their fate is not the only signal that hard-line princes are losing patience. The minister of defence and second-in-line to the throne, Prince Sultan, this week dismissed any idea that the Shura Council, an appointed body that vets laws, might become an elected legislature, on the ground that illiterate people might be voted in. For his part, the chief mufti of the kingdom, Sheikh Abdel Aziz al-Sheikh, declared that liberals were as much of a danger as militant religious extremists. “Those who doubt the nation and its leadership and its faith are the true enemies, whether or not they claim to call for reform,” he said. “The nation's reform will come about only through the faith of Islam and a leadership that imposes this faith and God's will.”

Liberal reformists have not despaired yet. While one group launched yet another petition, to demand the release of their colleagues, others met Prince Nayef, the owlish interior minister, to make the request personally. Participants at the dawn meeting said that the prince assured them that royal doors would always be open to citizens' complaints but that “foreign agencies” were exploiting the reformers' platform in order to damage Saudi national unity. In other words, to call openly for domestic change is

tantamount to treason.

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South African prisons

Where life means death

Mar 25th 2004 | BLOEMFONTEIN
From The Economist print edition

Capital punishment has been abolished, but jail can be fatal

AFTER a three-year inquiry into South Africa's awful prisons, Judge Thabani Jali will call for urgent reforms later this year. He has heard of crowded cells where inmates sleep in shifts; of warders who "sell" juvenile offenders for sex with other cons; and of guards who smuggle weapons, drugs and alcohol to paramilitary inmate gangs. No African jail is pleasant, and South Africa at least lets lawyers, journalists and researchers peer behind the bars at its 250 prisons. But what goes on in the cells when no one is watching is appalling.

Rape is common, and given that probably most prisoners are HIV positive, often lethal. Gangs use the virus as a means of control— threatening those who defy them with death by "slow puncture". Released prisoners go home and spread the disease.

Why are conditions so bad? Corrupt warders, old buildings and overcrowding don't help. In the 18 months to late 2003, some 600 prison staff were charged with crimes. Over 186,000 inmates are squashed into facilities built for 112,000. A persistently high crime rate, and new minimum sentences, keep the jail population swelling. Roughly 50,000 inmates await trial, some for years. One man due in court in May has waited six years behind bars. Reliable figures on recidivism do not exist, but it would be surprising if such brutal jails made their inmates nicer people.

The prisons ministry wants better jails and rehabilitated crooks, but without spending more. One solution could be to have more private prisons. South Africa's first, the 2,900-bed Mangaung maximum security jail in Bloemfontein, opened three years ago. Modelled on private British prisons, it is slightly costlier but vastly better than a state-run jail.

Uniformed inmates in Mangaung study, use pristine sports equipment and do shifts in workshops and vegetable gardens. Frikkie Venter, the head in South Africa of Global Solutions, the firm in charge, says 40 hours of purposeful activities a week means less violence and weaker gangs. The prison, which cost 300m rand (then worth $35m), uses electronic doors and fences, so fewer guards are needed and more teachers, counsellors and religious instructors can be hired. Staff are better trained and paid than in state prisons; there is almost no corruption.

Mr Venter thinks HIV prevalence is lower at his prison, too. Condoms are widely available and a well-appointed hospital offers better care than many public clinics. Inmates are kept in one- or two-man cells; there is no overcrowding. "It is more humane here," says one prisoner. Just four cases of sexual assault have been reported. All prisoners get a high-protein and high-fibre diet, good for the HIV-infected. Lawyers voted Mangaung as the country's best-run jail in 2002.

Why not copy this success? There is one other modern, private prison and the government may soon grant licences for four more to be built. But, worried by the cost, it has shied away from a plan for 11 in total. With an election pending, it sees no votes in being kind to criminals.

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Kuwait

Bed hopping

Mar 25th 2004 | KUWAIT CITY
From The Economist print edition

Events in Iraq have given Kuwait one of the world's perkiest hotel markets

HOTELS in Kuwait have long ranked among the most expensive in the world, thanks to the government's rigid price fixing. But they also used to be among the emptiest, rarely more than half full. In 2002, Kuwait City came 127th in a list of hotel occupancy issued by Deloitte, a professional-services firm. Last year, however, it shot up to number one, with 85% of its hotel beds being slept in on an average night.

Thank events in Iraq. Big companies like Halliburton, the oil-services firm, take over entire hotel wings. But an array of small-town travelling salesmen, touting anything from components to coconuts, use Kuwait as their launch-pad too. It is now the second-most-lucrative place in the world to run a hotel, says Deloitte, with an average room costing $172. Only Venice apparently makes more of a profit out of its standard visitor.

So international chains are keen to join the party. Marriott has recently arrived, taking over Kuwait City's Meridien property; it has also done a deal to run the city's grand Arraya Convention Hall when it opens next month.

The boom may not last. Big companies will decamp to Baghdad and Basra when Iraq gets safer. But optimistic foreign hoteliers think Kuwait will take off anyway. “We're very, very confident Kuwait will develop into a structured, cosmopolitan, gateway city—and a thriving capital,” says Jeff Strachan, Marriott's sales and marketing manager in Kuwait.

Domestic investment is booming. Kuwaiti businessmen are no longer loth to invest in their own backyard, lest Saddam Hussein send his army in again. Kuwait is slowly liberalising its commercial laws to lure foreign direct investment. Earlier this year, parliament approved plans to let foreign banks open branches. Similar legislation is expected for oil. And Kuwait's glittering shopping malls are luring ever greater numbers of Saudi weekend tourists. Kuwait, like Saudi Arabia, still bans alcohol (the minibar in the Marriott stocks Budweiser Non-Alcoholic); it is not another Dubai in the making. But it feels very different from how it did a few years ago.

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France

When angry voters hit back

Mar 25th 2004 | PARIS
From The Economist print edition

The French regional elections confirm the deep unpopularity of most European governments. First, a look at France; then at Germany

Get article background

"BYE-BYE Raffarin", purred *Libération*; "Adieu Raffarin", chimed in *Le Nouvel Observateur*, another left-leaning title. Assuming that French voters confirm their first-round battering of President Jacques Chirac's ruling centre-right party in this weekend's second-round elections for 22 regional councils, Jean-Pierre Raffarin's days as prime minister must be numbered. Even if he stays, the chances of his government pressing ahead with its ambitious reform programme now look doubtful.

The governing Union for a Popular Movement (UMP) party had expected a knock in the first round on March 21st, but it was taken aback by its scale. The biggest surprise was the swing to the left. Ever since the humiliation of April 2002, when the Socialist candidate, Lionel Jospin, was evicted in the first round of the presidential election by the National Front leader, Jean-Marie Le Pen, the left has been groping unsuccessfully for a convincing programme, leader and purpose. But the voters have been forgiving. The Socialists, Greens and Communists notched up 40% between them, up from 37% at the 2002 parliamentary poll. By contrast, the UMP, along with its centre-right sister, the Union for French Democracy (UDF), scraped together just 34%, well below the 47% legislative score of the UMP alone in 2002.

Polls suggest that the left will beat the right by as much as 46% to 36% in the second round. Stéphane Rozes, at CSA, a polling organisation, predicts that the left will recapture six or seven of the 14 regions now held by the right. Although they have limited powers, the regions carry symbolic value. In Britanny, an agricultural bastion of the right untroubled by big-city anxieties, the combined left grabbed a hefty 48%. Worse, the left did almost as well in Mr Raffarin's own backyard, Poitou-Charentes: Ségolène Royal, a Socialist parliamentarian whose partner, François Hollande, is the party's secretary-general, scooped up 46% to the UMP's 33%. In short, these elections are set to be a crushing humiliation for Mr Chirac and Mr Raffarin.

How lasting will this shift prove to be? Its impulse does not come from a coherent, rejuvenated left. Even leading Socialists admitted beforehand that their party was in disarray. It stems instead from an unusual

mix of circumstances: pre-arranged unity among the three left-leaning parties; an appeal for an “efficient vote”, which contained the far left; a strong mobilisation of younger voters; and the whiff of possibility after the Socialists' unexpected victory in Spain's general election.

The UMP, already numbed by the conviction of Alain Juppé, its boss, for political corruption, was also squeezed by division on the right. It failed to secure the loyalty of the UDF, whose leader, François Bayrou, was stubbornly convinced of his own chances in the Aquitaine region. Instead, he was pushed into third place, as were other UDF lone-rangers. Voters are now expected suddenly to believe in the two parties' undying love for each other, as they join forces in the second round. Confusion, if not disillusion, prevails.

Equally important was the far right. It is a measure of how entrenched the National Front has become that its 15% first-round score, a robust performance for any third force and disquieting for an unapologetically anti-immigrant party, was met with relief. The far right may not stand a chance of winning a region, and its score was a notch below the 17% won by Mr Le Pen in the 2002 presidential election. But far-right parties combined took 28% of the vote in Alsace; and the Front alone got 23% in Provence-Alpes-Côte d'Azur. In Orange, Provence, where elections to departmental councils were also held, it scored 40%; in Carpentras, 37%. And it enters the second round as sole third party in no fewer than 17 regions; in one, Nord-Pas-de-Calais, it beat the UMP into third place.

Where does all this leave the government? The overwhelming message is of voters' disgruntlement. Part of this is cyclical: the economy is near-stagnant and unemployment remains high (9.6%, and 21% among under-25s). But part of it stems from the government's clumsy failure to explain clearly what it is doing. Mr Raffarin had promised a reform programme, “Agenda 2006”. So far, he has implemented only one element: pension reform. Next on the list is a health-insurance overhaul, to rein in soaring costs. After lengthy consultation, proposals are being drawn up. Labour-market and education reforms are due to follow.

At first glance, the chances of any of these happening now look slim. Flush with victory, the left will be emboldened for confrontation. Protesters against budget cuts quickly take to the streets, the latest being researchers and scientists. Stung by the charge from the left that it has not done enough to heal the *fracture sociale*, the government will find it hard to push painful reforms. Anyway Mr Chirac is a survivor, not a reformer, and he will tolerate an unpopular prime minister only so far.

Hence the speculation over who might replace Mr Raffarin. Candidates range from Hervé Gaymard, the farm minister, to Michèle Alliot-Marie, the defence minister. Even if Mr Raffarin were to hang on until the next potential humiliation, the European elections in June—which might enable him to push through health reforms—a reshuffle is likely. It is widely understood that Francis Mer, the finance minister, has had enough in an impossible job.

There is, however, an alternative that would carry with it the bet that popularity and reform are not incompatible: the appointment of Nicolas Sarkozy, the omnipresent interior minister, who has made no secret of his desire to succeed Mr Chirac. This week, all quarters of the UMP, whose barons distrust the man precisely for this ambition, were hiring him to boost flagging campaigns. Even the president's wife, Bernadette, borrowed him in Corrèze, where she was re-elected as a departmental councillor.

Mr Sarkozy's popularity is not in doubt: he was elected to a departmental council this week, bagging 79% of the vote in Neuilly, a suburb of Paris where he was formerly mayor. Nor is his determination to take action, whether popular or not. “The French people are demanding that we go faster,” he declared this week. That may be a heroic conclusion to draw from a swing to the left. But, even if he is correct, the question remains: is Mr Chirac ready to gamble by picking a man whose success in the job could threaten his own?

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Germany's gloom

That malaise thing

Mar 25th 2004 | BERLIN
From The Economist print edition

German voters (and politicians) are depressed about the future

IS GERMANY turning into a failed nation? Followers of the media might wonder. Newspapers keep up a steady drum-beat about the “Decline of a Super Star”, the title of a new book. The author, Gabor Steingart, does not want it to be another piece of self-hatred, but he argues that Germany's history since 1945 has been a big mistake, and that the country needs to be refounded. Its famed industry? Running out of steam. Innovation? Look elsewhere. Work ethic? On holiday. The welfare state? Bankrupt. The elites? Don't ask.

This mood of self-criticism is in serious danger of turning into self-flagellation. Political leaders are worried. Despondency has become a big theme in the campaign for the federal presidency. On March 25th Gerhard Schröder, Germany's embattled chancellor, made a statement to parliament that was to mark the first anniversary of his Agenda 2010 reform proposals, but was above all a call for more optimism.

Reuters

Schröder in Angstland

Germans have never been cheery—*Angst* is a German word. Explanations include the weather, Protestantism, philosophy, the Nazi era. Yet what explains today's malaise is, in part, what followed the second world war: the *Wirtschaftswunder*, and a generous welfare state. Being world-class economically and socially became central to Germany's post-war identity. No longer topping the league has hit hard—as it did in Japan in the early 1990s. Bad news sinks in fast (German national income per person is below the EU average for the first time); good is ignored (the country is again the world's biggest exporter).

Add in persistently high unemployment, and it is not surprising that 47% of Germans, says one poll, think their country has “major problems”; 38% talk of a “severe crisis”; and 13% fret about a “catastrophe”. Less than 3% consider everything to be fine. In another poll, by the World Economic Forum, 69% of Germans said the next generation will be poorer than they are, compared with 48% of all west Europeans and 31% of North Americans.

A part of the malaise is, however, the fault of politicians, who have not sold the case for reforms well. Mr Schröder won the 2002 election on such issues as opposition to the war in Iraq and the floods in eastern Germany—plus a promise that nothing had to change. When he made his Agenda 2010 speech a year ago, it was little more than a laundry list; only a dozen lines were dedicated to why reforms were needed and where they should lead. This communication failure is surely the main reason why the Social Democrats' poll rating is now only 25%—and why there is talk of starting a new left-wing populist party.

As for the opposition conservatives, they give little impression of being ready for power. They want more far-reaching reforms than the government in taxes and health care. But they seem more obsessed by their choice of candidate for chancellor in 2006 than by the need to put together a coherent programme. As many as 80% of voters do not think the opposition would do a better job than the government.

The media do not help voters to grasp that in crisis is opportunity. Since the capital moved from Bonn to Berlin, a cosy cartel has been replaced by cut-throat competition, with more outlets, and plenty of big losses (which hardly make for positive thinking). News cycles are getting shorter, with trivia leaping into the headlines and any policy ideas swiftly shredded. Politicians complain that “tabloidisation” makes it hard to discuss complex structural reforms. And the press has developed a populist streak: what was

long the province of *Bild*, the leading tabloid, can now be found in more highbrow publications, such as *Stern* and even *Der Spiegel*. Several papers have adopted *Bild*'s habit of calling for far-reaching reforms but criticising specific ones as socially unbalanced.

The gloom might be helpful if it led to a jolt that shook up the country. But it could also tip into paralysis, as it did in Japan. And it is unlikely to change Germans' contradictory attitude to reform: they accept the need for change, but scream blue murder when they have to pay to see their doctor. Self-pity can also be an obstacle to the economy. If foreign investors are shunning Germany, that is partly a result of Germans bashing their own country.

Even in *Angstland*, however, hope springs eternal. The media are starting to realise that they may be part of the problem. Franz Müntefering, who has taken over from Mr Schröder as leader of the Social Democrats, has the right personality to persuade voters that, despite the pain of reforms, they need not fear the future. Germans will otherwise continue, as Johannes Rau, the outgoing federal president, puts it, to “walk around looking as if they have too much gastric acid.”

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Portugal

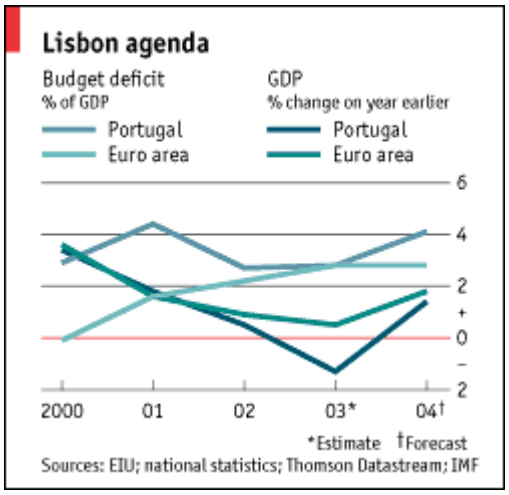
Stability pays

Mar 25th 2004 | LISBON
From The Economist print edition

The prime minister wins surprising support for fiscal austerity

WHILE Portugal's finance minister, Manuela Ferreira Leite, was out shopping in Lisbon recently, an old lady came up to congratulate her warmly on her “victory over the budget deficit”. José Manuel Durão Barroso, the centre-right prime minister, relishes this story as evidence of how his fiscal rigour is changing attitudes in a country long used to government overspending. “Not since Portugal was founded in the 12th century has the deficit and the need to control state spending been such a focus of attention,” he says. “We are at last discarding the idea that the state is more important than individual initiative.”

To comply with the euro area's stability-pact limit on budget deficits of 3% of GDP, Mr Durão Barroso's government imposed a string of tough austerity measures, and urged stoicism when the country then suffered the sharpest recession in Europe (see chart). The economy shrank by 1.3% last year. That does not sound like a vote-winner. But at the 2006 election, predicts Mr Durão Barroso, his Social Democratic Party will win “the biggest parliamentary majority achieved by a Portuguese government since democracy was restored 30 years ago”. The Portuguese may not relish austerity, but polls bear out the prime minister's assertion that “even those most critical of my government understand that sacrifices are needed to put our public finances back in order.”



Winning votes by squeezing public spending or raising taxes is not a strategy that appeals to other European leaders. The German and French governments have used an economic downturn as an excuse to flout the stability-pact rules. And yet both are deeply unpopular with their voters. Mr Durão Barroso claims not to be a popularity-seeker. “I believe I have a duty to put Portugal back on the right track,” he says. “If there is a choice between taking the right measures and winning elections, I will always choose the former.”

In his two years in government, Mr Durão Barroso has declared two “great victories” in his struggle for sound public finances. In 2002 he slashed the budget deficit inherited from the previous government from 4.4% to 2.7% of GDP, in only eight months. “I doubt that any other country in Europe could have achieved that,” he boasts. And last year he kept the deficit down to only 2.8%. Yet he also believes he has brought in more reforms than other European countries with healthier economies. “I'm not a free-market fundamentalist,” he insists. But the state's example of fiscal rigour is, he believes, setting the tone for company and family finances too. This will enable the economy to make the most of a recovery that should be gathering force by 2005-06—just in time for the popularity of this steely prime minister to be tested at the ballot box. Too bad that the IMF thinks the budget deficit will be back up to 4% of GDP well before then.

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Kosovo

Field of sorrows

Mar 25th 2004 | PRISTINA
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Renewed violence raises troubling questions over Kosovo's future

NOBODY hides his bitterness. Exactly five years ago Javier Solana, NATO's then boss, ordered air strikes to end Serb repression and killings in Kosovo. Five years on Mr Solana was back, as the European Union's foreign-policy head, fulminating at “appalling” and “intolerable” behaviour that led to 28 deaths, the ethnic cleansing of 4,000 Kosovo Serbs and Roma (gypsies), destruction or damage to 366 houses and attacks on 41 Orthodox churches and monasteries.

Some 100,000 Serbs live in Kosovo, amid a population of some 1.8m ethnic Albanians. Half live in the north, abutting Serbia proper; but the rest are in enclaves scattered across the province. It was Serbs and Roma living in the most vulnerable spots who were chased out in two days of violence on March 17th and 18th. Their stories are grim. One lady taking refuge in a school gym in the Serbian enclave of Gracanica told how schoolchildren rampaged through her house before hitting her with a hammer. Her 50-year-old son, a victim of childhood polio, was beaten with his crutches by Albanians screaming: “What are you waiting for? Get out!” Their house, in the once mainly Serbian town of Obilic, was burnt. No Serbs are now left in Obilic.

AFP

A burnt-out case

In 1999, after 78 days of bombing, the Serbs gave in. Serb rule was replaced by the UN. Some power has been devolved to an elected government, whose prime minister, Bajram Rexhepi, calls the violence a “disaster”. He has set up a government fund to rebuild destroyed houses and churches. But this conciliatory move got short shrift from Kosovo's Serbian Orthodox bishop, who scoffed that sending experts to examine damaged churches would be “like bin Laden sending experts to examine the Twin Towers”.

Harri Holkeri, the UN boss in Kosovo, declares that trust has been destroyed. One UN staffer who worked in the northern town of Mitrovica says she has seen all her work literally go up in flames. Now western policymakers face some tough choices. Billboards in Pristina, Kosovo's capital, display pictures of a road leading to hills behind which hovers an EU flag. They are advertising the idea that, if Kosovo and its local institutions adhere to high enough standards, a European future is just over the hills and not that far away.

Until this violence erupted, there were hopes that talks on Kosovo's final status might start in mid-2005. Now, says Mr Holkeri, that target is no longer realistic. But discontent with the UN, Kosovo's unresolved status and the stalled economy may just win the extremists behind the violence more support—as happened in the 1990s, when the policy of peaceful resistance to Serb rule seemed to bring no results. Veton Surroi, an influential commentator, says that the UN must understand this dynamic: “We are now in for a rough ride.” On March 23rd, one UN policeman and one local one were killed when their police car was attacked. If western officials were now to speed up final-status talks, they would be seen by many to be giving in to violence.

Oddly, relations between Kosovo's politicians and Serbia's nationalist prime minister, Vojislav Kostunica, may not be quite as glacial as they would have their voters believe. In the two days before the violence erupted, one of Mr Kostunica's top advisers met his counterparts from the offices of Mr Rexhepi and Ibrahim Rugova, Kosovo's president, in Switzerland.

Mr Kostunica has talked of “cantonisation”; in UN parlance, this is “decentralisation”. Whatever the label, it means some form of autonomy for Serbs in parts of Kosovo. For many Serbs it points to eventual partition. Both Serbs and ethnic Albanians have been looking at how fighting ended in Bosnia and Macedonia, hoping for lessons for Kosovo. If they hold open lines between Serbia and Kosovo, the violence may even galvanise their work. But that is the hopeful scenario.

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Slovakia

Scandalous

Mar 25th 2004 | BRATISLAVA
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The disturbing popularity of Vladimir Meciar

SLOVAKS see their presidential election on April 3rd as a dull affair. But to outsiders it verges on the shocking. The front-runner is Vladimir Meciar, a former prime minister widely seen as a bad hat who engineered his country's break-up with the Czech Republic in 1993, let cronyism hijack the economy, and flouted democratic norms with such abandon that neither the European Union nor NATO would even talk of letting Slovakia in. He will probably lose, because his opponents will unite against him; and the job is mainly ceremonial. But why do so many Slovaks want Mr Meciar back, even as a figurehead, when their country is at last joining NATO (next week) and the EU (on May 1st)?

The idea seems more incongruous given that Slovakia's centre-right government, which ousted Mr Meciar six years ago and was re-elected in 2002, is praised across Europe for its economic reforms. Although defections have cost it an assured parliamentary majority, it has brought in a 19% flat tax for profits and incomes, a flexible labour code and American-style welfare reforms. For public pensions, new personal accounts run by private companies come in January. Health and education are next. The reforms are working, despite unrest among poor Roma (gypsies) in eastern Slovakia. Foreign investment is pouring in; unemployment is falling.

But Slovakia has lots of poor people who feel that reforms have brought more pain than gain. Many back Mr Meciar, as do nationalists. He courts centrists by portraying himself as a committed European, though he was far from that when in power. The presidency would give him a graceful exit from parliament, where he has lost ground to a younger populist, Robert Fico, founder of a left-leaning opposition party called Smer. Mr Fico is rated as Slovakia's most trusted politician, with Mr Meciar second. The prime minister, Mikulas Dzurinda, comes miles behind.

Mr Fico is sitting out the presidential race, because he wants the job of prime minister. That leaves the incumbent president, Rudolf Schuster, a veteran ex-communist, as Mr Meciar's main rival on the left, in a field of 11. Mr Schuster beat Mr Meciar in the 1999 presidential election, but his star has since faded. The main centre-right contender is Eduard Kukan, the foreign minister. Nobody is likely to win outright in the first round, forcing a run-off between the top two. Mr Kukan would probably win against either rival. But a run-off that pitted Mr Meciar against Mr Schuster could go either way.

Voters are also being asked if they want an early parliamentary election, before the due date of 2006, in a non-binding referendum demanded by trade unions. A strong yes vote would encourage Mr Fico; so should the presidential election, whatever its result. Mr Meciar will be weakened if he loses; if he wins, he will be out of parliament. Either event will bring closer Mr Fico's goal of wresting power from Mr Dzurinda's government, without sharing it with Mr Meciar or anyone else.

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Turkey and the Armenians

An historical heroine

Mar 25th 2004 | ISTANBUL
From The Economist print edition

A row over the ethnicity of a Turkish icon

WAS she Armenian? The question was on the minds of generals marking the third anniversary, on March 22nd, of the death of Sabiha Gokcen, Turkey's first woman pilot and the adopted daughter of modern Turkey's founder, Kemal Ataturk. The generals denounced claims that Turkey's feminist icon was an Armenian by birth when they appeared last month in *Agos*, a Turkish-Armenian paper in Istanbul.

Any such debate mocked national values and was not conducive to social peace, fumed the top brass. Hrant Dink, *Agos*'s managing editor, counters that it shows that Turks cannot confront their identity and past. He has been deluged with death threats and mobbed by ultra-nationalists ever since publishing claims by Hripsime Sebilciyan Gazalyan, an Armenian, that Miss Gokcen was her aunt. The official version is that she was an orphan from Bursa, in western Turkey, who was adopted by Ataturk in 1925. Mrs Gazalyan says that Ataturk plucked her from an orphanage in the south-eastern town of Sanliurfa, where she was dumped after losing her father in the mass slaughter of Armenians in 1915.

Armenians insist that as many as 1.5m of their kin were murdered by Ottoman forces in what they term genocide. The Turks say at most 300,000 Armenians perished, in a conflict Armenians instigated by allying with invading Russian troops. The few Turkish scholars who have challenged the official line have been called traitors. Taner Akcam, the only Turkish historian to have talked of genocide, had to seek refuge in America after a string of Turkish universities refused to hire him.

Despite the row over Miss Gokcen, Mr Dink argues that attitudes to Turkey's 80,000 Armenians are changing. The mildly Islamist government led by the Justice and Development Party has nominated several Armenians for local elections on March 28th. Recep Tayyip Erdogan, the prime minister, vows to restore an exquisite Armenian church in the eastern province of Van. There is talk of resuming diplomatic ties with Armenia—so long as the Armenians drop demands that Turkey admit to genocide.

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Charlemagne

Multicultural troubles

Mar 25th 2004
From The Economist print edition

Terrorism's insidious effect on race relations in Europe

WHEN Muslims opened a mosque in Granada last summer—the first built in the city for over 500 years—it was hailed as a hopeful sign of reconciliation between Islam and Christianity. The Moors had, after all, ruled the southern Spanish province of Andalusia for 800 years, until they were expelled in 1492. Over the past generation a new wave of 500,000 Muslim immigrants have made Spain their home. The Granada mosque seemed to show that modern Spain had made its peace with Islam.

But the terrorist bombs in Madrid, apparently inspired by Islamist radicals whose rantings suggest that they seek revenge not just for the dispatch of Spanish troops to Iraq but also for the loss of al-Andalus half a millennium ago, have created fears for the future. Spain, previously notable for its relatively relaxed attitude, is now likely to join those European countries that are increasingly nervous about Muslims and immigration.

Signs of such anxiety have proliferated since September 11th 2001, even in countries that once prided themselves on their openness and tolerance. Pim Fortuyn, leader of a populist, anti-immigration party in the Netherlands, was assassinated in 2002 and his political party has since fallen into disarray, but many of his ideas have gone mainstream. In his base of Rotterdam, the local government is now explicitly trying to change the racial profile of the city, whose population is projected to be 57% of foreign origin by 2017. An all-party report to the Dutch parliament recently concluded that 30 years of multicultural policy had failed in the Netherlands, and that more energetic efforts should be made to oblige immigrants to learn Dutch and embrace local values. Even the Dutch Green leader has called for it to be made illegal for Muslims to import spouses for arranged marriages.

Efforts to force Muslims to assimilate are also under way in other European countries. The Danes have introduced restrictions on arranged marriages. The French are imposing a ban on the wearing of the Muslim headscarf in state-run schools—a measure that has enjoyed broad cross-party support. Even Britain, which until recently was congratulating itself on its successful assimilation of minorities, has become less complacent. The Blair government has just brought in civics lessons and an oath of allegiance for all would-be citizens.

Much of this new mood is undoubtedly linked to fears of terrorism. It took September 11th to make it legitimate for Fortuyn to attack fundamentalist Islam as “backward” and illiberal. Similarly in Britain, the revelation that suicide bombers and Taliban fighters had been recruited from among British Muslims caused alarm. The number of such recruits is tiny; however, a poll this month in the *Guardian* suggested that 13% of British Muslims would regard “further attacks on the US by al-Qaeda” as justified. France is on heightened alert for signs of al-Qaeda penetration among its Muslims, estimated at somewhere around 4.5m (7.5% of the total population).

It would be a mistake, however, to believe that tensions over the growing number of Muslims in Europe are simply a by-product of the “war on terror”. Anti-immigration parties such as France's National Front and Austria's Freedom Party were well-established long before the aircraft crashed into the twin towers. Europe is a rich, stable continent with an ageing population, surrounded by poor, unstable countries with lots of young people. Inevitably, many have made their way from north Africa or the Middle East to look for opportunities in Europe, whether as legal migrants, illegal workers or asylum-seekers.

The overall number of Muslims in the European Union is still pretty small in relation to the population as a whole: they make up perhaps 12m, out of a total EU population of 375m. Their concentration in particular cities, however, means that their impact can be more dramatic at the local level. The majority of children under 14 in the four biggest Dutch cities—Amsterdam, Rotterdam, The Hague and Utrecht—

are now children of non-western immigrants, most of them Muslim. Despite the anti-immigration policies of Rotterdam's council, Europe's largest mosque is now under construction in the city. Local politicians grumble that its minarets will rise higher than the floodlights of the neighbouring football stadium, a secular city's equivalent of the local cathedral. In Brussels, the capital of the European Union, Muhammad has been the most popular name for new-born boys for the past four years.

Assimilate, assimilate

Yet such facts are sinister or disturbing only if people choose to make them so. Walk around the Muslim quarters of Rotterdam or Brussels and there are plenty of signs of both assimilation and entrepreneurship. The hall of the local mosque for the Turkish community in Rotterdam is decked out with Dutch flags. The Madou district of Brussels may be run-down, but it is also full of small businesses—late-night groceries, cafés, second-hand clothes stores—that are run by people of north African origin. Belgians, Congolese and Moroccans mingle easily on the streets. The Lavapies district in Madrid, where the Spanish police have arrested most of the suspects in the March 11th bombings, is a similar sort of place, in which immigrants can make a start, find a job and join a community.

Such districts are the lifeblood of big cities across the world. But in the aftermath of the Madrid bombings, they are also now under scrutiny across Europe. The veiled woman or the bearded cleric, who might not have received a second glance in the street in happier times, may now attract suspicious looks, however unfairly. Newspapers and politicians have redoubled calls for greater surveillance of mosques and radical preachers. Prominent Muslims, in turn, worry about mounting “Islamophobia”. The havoc and misery wrought by the Madrid bombs have been followed by a secondary sad effect: rising mistrust between the Muslims of Europe and their neighbours.

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Mercenaries

The Baghdad boom

Mar 25th 2004 | BAGHDAD
From The Economist print edition

AP

British companies have been grousing about losing out to the Americans in Iraq. But in one area, British companies excel: security

THE sight of a mob of Iraqi stone-throwers attacking the gates to the Basra palace where the coalition has its southern headquarters is no surprise. What's odd is the identity of the uniformed men holding them off. The single Briton prodding his six Fijians to stand their ground are not British army soldiers but employees of Global Risk Strategies, a London-based security company.

Private military companies (PMCs)—mercenaries, in oldspeak—manning the occupation administration's front lines are now the third-largest contributor to the war effort after the United States and Britain. British ones are popular, largely because of the reputation of the Special Air Service (SAS) regiment whose ex-employees run and man many of the companies. They maintain they have twice as many men on the ground as their American counterparts. According to David Claridge, managing director of Janusian, a London-based security firm, Iraq has boosted British military companies' revenues from £200m ($320m) before the war to over £1 billion, making security by far Britain's most lucrative post-war export to Iraq.

It's a lucrative business. A four-man ex-SAS team in Baghdad can cost $5,000 a day. Buoyed by their earnings, the comrades-in-arms live in the plushest villas in the plushest quarters of Baghdad. Their crew-cut occupants compare personal automatics, restock the bars and refill the floodlit pools of the former Baathist chiefs.

Established companies have expanded; new ones have sprung up. Control Risks, a consultancy, now provides armed escorts. It has 500 men guarding British civil servants. Global Risk Strategies was a two-man team until the invasion of Afghanistan. Now it has over 1,000 guards in Iraq—more than many of the countries taking part in the occupation—manning the barricades of the Coalition Provisional Authority (CPA). Last year it also won a $27m contract to distribute Iraq's new dinar. Erinys, another British firm, was founded by Alastair Morrisson, an ex-SAS officer who emerged from semi-retirement to win a contract with Jordanian and Iraqi partners to protect Iraq's oil installations. CPA officials say the contract is worth over $100m. Erinys now commands a 14,000-strong armed force in Iraq.

In industry jargon, these companies' manpower is split into Iraqis, “third-country nationals” (Gurkhas

and Fijians) and “internationals” (usually white first-worlders). Iraqis get $150 a month, “third-country nationals” 10-20 times as much, and “internationals” 100 times as much. Control Risks still relies on westerners, but ArmorGroup, a British rival, employs 700 Gurkhas to shepherd America's primary contractors in Iraq, Bechtel and KBR. Erinys's corps of pipeline protectors is overwhelmingly Iraqi. The cheapness of the other ranks, compared with western soldiers, is one reason why PMCs are flourishing. “Why pay for a British platoon to guard a base, when you can hire Gurkhas at a fraction of the cost?” asks one.

Nobody knows how long government contracts will last after the CPA dissolves on June 30th. But multi-billion World Bank and UN reconstruction funds should provide rich pickings. Amid rising violence, the Program Management Office, which handles America's $18.6 billion aid budget for Iraq, has raised its estimates of security costs from an initial 7% of contracts to 10%. Blackwater, the American firm protecting Iraq's American proconsul, Paul Bremer, says in many cases costs run to over 25%. That's bad news for Iraqis hoping for reconstruction, but great news for PMCs.

The boom has led to two worries. The first is lack of regulation. Stressed and sometimes ill-trained mercenaries operate in Iraq's mayhem with apparent impunity, erecting checkpoints without authorisation, and claiming powers to detain and confiscate identity cards. A South African company guarding a Baghdad hotel put guns to the heads of this correspondent's guests. According to the CPA, non-Iraqi private-security personnel contracted to the coalition or its partners are not subject to Iraqi law. Even the industry is concerned. Regulation is vital, says ArmorGroup's Christopher Beese, if Iraq is not to descend into the law of the jungle.

Second, the boom may be eroding Britain's defences. Just when the war on terror is stretching the SAS to the limit, the rising profitability of private sector work is tempting unprecedented numbers of its men to leave. An SAS veteran estimates that some 40 of its 300 corps requested early release from their contracts last year. Another guesses that there are more ex-SAS people in Iraq than there are currently serving in the regiment. Head-hunters poaching military talent, say critics, risk turning the army's elite corps into little more than a training school for PMCs.

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Blair and Qaddafi

Tony Blair's big tent

Mar 25th 2004
From The Economist print edition

Why Tony Blair went to visit Muammar Qaddafi

AP

Tony's new friend

THE timing of this trip could hardly have been more controversial. Twenty-four hours after joining grieving Spaniards for a mass to commemorate the victims of the worst terrorist outrage in Europe since 270 people died at Lockerbie in 1988, Tony Blair was sitting in the tent of the man widely supposed to have sponsored the destruction of Pan Am flight 103.

The Tory leader, Michael Howard, quickly condemned the distasteful juxtaposition. Other critics demanded that the prime minister should confront the Libyan president, Muammar Qaddafi, about Libya's appalling human-rights record, its bankrolling of Robert Mugabe's rogue regime in Zimbabwe and the lack of progress in bringing to justice the person responsible for the murder of Yvonne Fletcher, a policewoman killed during a siege at the Libyan embassy in London 20 years ago.

On that issue, Mr Blair made some progress: British police will fly to Libya next month to investigate the murder. And a statement from Jim Swire, a spokesman for some of the Lockerbie families, also helped Mr Blair. Mr Swire said that, if Libya really was turning its back on terrorism, his group supported Mr Blair's efforts. Mr Blair is convinced that this is so. In August last year, Libya admitted responsibility for the Lockerbie bombing and agreed to pay $2.7 billion in compensation. But more recently, it decided to abandon its pursuit of weapons of mass destruction—a move seen in London as both a diplomatic triumph and the most obvious dividend of the Iraq war so far.

Mr Blair is hoping that, by offering the Libyan dictator a way back from his richly deserved pariah status, he will encourage other proliferators to follow suit. He held out the prospect of military training, to help Libya develop a less alarming defence strategy, and of lucrative commercial ties to open up Libya's depressed but oil-rich economy. Whether he also took with him a very long spoon is not known.

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Modern architecture

Zaha Hadidn't

Mar 25th 2004
From The Economist print edition

Why a world-famous British architect has no buildings in Britain

ZAHA HADID, born in Iraq, raised in Lebanon, and now a British national, has just won the Pritzker prize, architecture's equivalent of the Oscar. She is the first woman, and only the third Briton, to win it. But despite receiving international acclaim and completing major projects in Europe and America, she has not been given the chance to build anything permanent in Britain.

Rather as Britain produces some of the world's best-known fashion designers and some of the world's worst-dressed women, so the country seems reluctant to employ the talents of its many successful architects. Once they have done well abroad, it showers them with apologetic gongs—Sir James Stirling, Lord (Richard) Rogers, Lord (Norman) Foster and Ms Hadid, CBE, to name but a few—but it remains reluctant to commission many of their designs. Why is Britain so good at producing architects but so bad at giving them work?

The Architectural Association, whose alumni and lecturers include many of architecture's biggest stars—Ms Hadid, Will Alsop, Lord Rogers, along with two former Pritzker winners, Rem Koolhaas and Rafael Moneo—has its own theory. The AA's chairman, Mohsen Mostafavi, says the school's approach, which encourages students to concentrate more on ideas than on cement mixers, helps generate the creativity which gets them noticed, but does not endear them to planners.

And Britain's planners are unusually conservative. There are some good reasons for this. In the 1960s and 1970s they allowed lots of good old buildings to be destroyed and replaced with unloved new ones, and they have never been allowed to forget it. But the emphasis on conservation and blending in, even in places where there is little to preserve or complement, often means turning down good designs. Innovative architects also tend to be bad at selling themselves. The Royal College of Art's website says its head of architecture, Nigel Coates, creates work that “plays on the psycho-geographic association between the built environment and desire”. Such nonsense puts people off.

The real problem for architects, though, is that the planning system is just too democratic. Most planning decisions are taken by elected local authorities. They have to answer to popular taste. Polls for the Commission for Architecture and the Built Environment have repeatedly shown that people like bungalows and Victorian terraces. Faced with the need to keep locals happy, planners aren't after psycho-geography and desire: they just want to be loved.

There are signs that things are changing. Frank Gehry's Guggenheim Museum in Bilbao has shown town planners that a daring new building can be both popular and a boon to tourism. Within Britain, Jacques Herzog and Pierre de Meuron's transformation of Bankside power station into Tate Modern and Daniel Libeskind's Imperial War Museum North are having a similar effect. Britain also has more architectural competitions than before: the Royal Institute of British Architects says it has run 50% more competitions in the past year than in previous years. Maybe Britain is losing its fear of wild buildings.

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London Underground

Tubes untangled

Mar 25th 2004
From The Economist print edition

Britain's most important public-transport network, the London Underground, will get worse before it, maybe, gets better

Get article background

LONDON'S underground railway is the most important and most fragile public-transport network in the country. The controversial and expensive public-private partnership (PPP) that took it over last year is now facing its first big test: a huge track-replacement project on the network's most heavily used and clunky stretch: the southern spine between Earls Court in west London and Whitechapel in the east. It's the bit of the network that feeds workers from west London's prosperous residential areas to the City, and spreads workers from Victoria, the biggest commuter station, around the capital.

“We must scrape away 150 years of ballast, grot, grime, mud and whatever, plus put in modern track and proper drainage,” says Howard Collins, who manages the lines for the state-owned London Underground. The amount of water pumped out of Victoria station, the busiest on the stretch, has risen by 40% in five years. It must be done: otherwise there will be slower, bumpier, more unreliable trains, and flooding.

Even if all goes smoothly, it means serious inconvenience every weekend this summer. At worst, chaos looms of a kind that will dwarf the much-moaned-about muddles on the national railway system.

This summer poses a challenge not just to the engineers. It is also a test of the government's enthusiasm for private-sector involvement in public services. Under the PPP, the tube is owned and manned by the public sector, but maintained by two infrastructure companies, Metronet and Tube Lines, which get £1 billion ($1.8 billion) a year for maintenance and investment. If their performance falls short of agreed benchmarks, they are fined.

Ken Livingstone, the mayor of London, fought against the introduction of the PPP and lost. The PPP has been widely ridiculed for the size and complexity of its contracts. Its many enemies are waiting for it to fail, and bring London to a halt. So how is it doing?

The PPP can take the credit—or blame—for the fact that these huge engineering works are happening. Public-sector managers for decades failed to carry out necessary maintenance. Because the private companies have long-term (30-year) contracts, they have an incentive to invest.

There have been practical, if cosmetic, improvements. Under public-sector management, trains were covered in graffiti. Since privatisation, no graffiti-stained carriage enters service. Deprived of public exhibition of their skills, the scribblers have given up. Customers' assessments of the system's “ambience” (cleanliness, safety and so forth) have risen from the low 20s to above 80 (out of 100), according to Mr Collins. For that, the infrastructure companies are rewarded.

But the reliability record is not so impressive. On March 10th, the entire Victoria line was out of action for the Monday morning rush hour. A spare rail, left too close to the track after night-time work had finished, disabled the first train, and bottled all the others up in the depot. Metronet will be fined nearly £500,000 for this.

Fines are smaller for the frequent and disruptive overruns on weekend engineering work, which leads some to criticise the PPP's incentive structure. The passengers' lobby, the London Transport Users' Committee, describes such overruns as “scandalous”. Mr Collins calls them “totally unacceptable”.

The infrastructure companies say they are learning to work better. Alex Foulds, the director of operations for Tube Lines, says before the PPP a weekend's work replaced 300 metres of track. This has now risen to 550 metres; the aim is 750.

But there is a long way to go. Of the 50-odd hours available over a weekend, fully 16 can be taken up with handing over, getting ready, clearing up, plus a margin for error. Poor planning and bureaucracy are partly to blame. The infrastructure companies are made up of outfits with experience in Britain's main railway system. They haven't done very well there; working in remote, narrow tunnels underground is, they are finding, even trickier.

One answer is longer closures. If lines were shut sometimes on Fridays and Mondays too, the infrastructure companies say, they could do the job faster and better. Weekend working, says David Crawley of Metronet, is “like decorating your house by putting up wallpaper one strip at a time”. Talks are continuing on this.

But the PPP's problems may go deeper. Stephen Glaister, professor of transport economics at London's Imperial College, says: “Incentives in the contracts are not strong enough to make the companies serve the public's interests rather than their own. It's cheaper for them to overrun than to finish on time.”

The miserable experience of wasteful and incompetent work by contractors on overground rail leaves others sceptical. Tony Travers of the London School of Economics says that spending on the underground has doubled since privatisation without a commensurate improvement: “If these companies don't have a grip on all this, they will spend a lot of taxpayers' money building a railway that is worse than what they started with.”

Such worries may be justified. But it is too early to term the PPP a failure. Managers on both sides insist that working relationships are sensible, constructive and improving. Some problems may be solved by intelligent tweaking of the system, for example with higher fines for overruns, now being considered. The big worry, though, remains that the PPP rests on such shaky, intricate foundations.

However well the PPP turns out, this summer is likely to be rough. The promised improvements are mostly in future years. But for passengers and taxpayers the costs are immediate.

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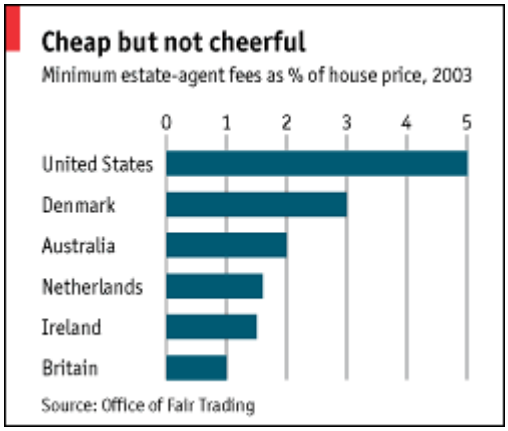
Estate agents

Well appointed?

Mar 25th 2004
From The Economist print edition

Estate agents are reviled, but moving house in Britain is cheap



A POLL on Channel 5 news following the publication of a mildly critical report on estate agents by the Office of Fair Trading (OFT) on March 23rd found that 83% of respondents mistrusted them. To which the obvious retort from the many that are used to the lying, manipulation, secrecy and fraud so common in that fair trade is: how could 17% be so gullible?

Small wonder that the report, which said that things could be a bit better, advocates a bit more transparency and thinks that people should shop around more for better deals, was widely slated for being too tame. Even the National Association of Estate Agents (NAEA), the umbrella body, says estate agents should be licensed and made to sit exams, as is the case in other countries. At the moment, anyone can set up shop as an estate agent. “They didn't grab the opportunity to bring rogue agents into line,” says Peter Bolton King, the NAEA's boss. “If you're dealing with people's biggest asset you need regulation. It's ridiculous, frankly.” The Royal Institution of Chartered Surveyors said the OFT had “bottled out”, and the Consumers' Association slammed the report as “woefully inadequate”.

Certainly, abuses and sharp practice are commonplace. Some are well known: taking down the boards of rival agents, or accepting bribes from low bidders not to tell sellers about higher offers, for example. Others are less so, such as “losing” keys to a property, so that it can't be shown by rival agents. Or undervaluing a property owned by a trusting elderly widow, and getting a relative to buy it on the cheap. The wonder is that only a fifth of sellers told the OFT that they have had serious problems with estate agents.

The way the business appears to have flourished in recent years sticks in many throats. Every other shop on the high street now seems to sell houses. House prices are to blame. Since estate agents take a percentage of the value of the house when they sell it, their incomes rise as house prices do. In 2002, says the report, estate agents raked in fees of £2.5 billion. The OFT notes that, while competition is stiff, and barriers to entry and exit are low, fees seem to be sticky.

Perhaps—whisper it for fear of disturbing a long-held prejudice—that is because, as the chart shows, they are already low by international standards. Indeed, perhaps the most interesting part of the OFT report are its annexes, which compare how much it costs to move house in Britain and a few other countries.

Moving house in England is, indeed, even cheaper than the chart suggests. For the commission in most other countries does not include, as it does in England, advertising and other marketing costs. Nor are estate agents as profitable as might be supposed. At the peak of the property cycle, says the OFT, they earned about 10% in operating margins on average. For a couple of years in the mid-1990s, heartening, they actually lost money.

The most expensive place to move is America, where commissions vary between 5% and 7%, estate agents are licensed and regulated by the state. America's west coast is the most expensive place of all. Which is perhaps why there are 340,000 estate agents in California alone, and 1m in the whole of America.

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Company taxation

Fresh straw on the camel's back

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New rules on transfer prices and debt, new compliance costs. Blame the EU

BUSINESS already has plenty of grumbles about the EU, but there's another one on its way. On April 1st, new rules on transfer pricing within companies come into force which are likely to prove costly, in both money and administrative pain.

The Inland Revenue, like any rich country's tax-collector, has long-standing rules to stop multinationals manipulating cross-border transactions within a group in such a way that its profits turn up in some tax haven abroad. The tricks are simple. Worldbouquet plc, let's call it, imports flowers to sell in Britain from a Colombian associate—and pays a “transfer price” that is double the real price. Or maybe Worldbouquet (Antilles) raises $500m and lends it on to the British company—at an excessive rate of interest. In either case, the result is fat profits abroad, none in London.

These ploys are of little use inside Britain: profits in Lincolnshire are as taxable as profits at New Covent Garden. Yet now the rules on transfer prices and intra-group debt are to apply even to purely British transactions by any business above medium size (ie, with 250-plus employees, and turnover of more than £35m or assets above £30m). And in “exceptional” cases, the threshhold may be lower still: only small businesses (up to 50 employees and £7m turnover) can feel safe.

This is happening because of a series of rulings by the EU court in favour of EU multinationals claiming to have suffered discrimination. In the days of advance corporation tax, a British subsidiary paying dividends to a British parent could escape that tax, but not if the parent was foreign. Hoechst, a German chemical company, challenged this. The case went up to the EU court, and in 2000 Hoechst won. In 2002 a Dutch parent won a case about interest payments from a German subsidiary. Last year in Britain, Marks & Spencer claimed it should be allowed to set losses at its now defunct subsidiary in France against its British profits. That case is now at the EU court—and already some 55 other multinationals are challenging the Inland Revenue on much the same grounds as M&S.

The issues vary, but the EU court has one firm principle: within the EU, borders don't count. Till now, Britain's rules on transfer pricing have cut across that principle: the Paris parent of a Kent company has had to obey them, a London parent has not. So either Gordon Brown could tighten the rules to hit purely British dealings too; or he could extend freedom from them to the entire EU, and see transfer prices fiddled to show profits in, for instance, Ireland (corporation tax 12.5%, against Britain's 30%) or one of the several about-to-join EU countries with low rates.

For companies that have barely bothered their heads about intra-group prices or interest rates, keeping track, and being able to prove it, will be a real hassle. The initial cost, says PricewaterhouseCoopers, could be up to £200,000, with yearly running costs up to half that. Companies have had to hurry: as the CBI laments, it is not four months since Mr Brown announced his plans, let alone the details. And it will be rash to go slow or skimp: an Inland Revenue inquiry might cost £500,000. No vast sums in turnover terms, but on profits of, say, £2m-£3m not peanuts.

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Public-sector efficiency drive

Soft money

Mar 25th 2004
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Why it will be hard to make big savings

IF PATRIOTISM is the last refuge of a scoundrel, wars on public waste are the last refuge of politicians who can't make their sums add up. In last week's budget, Gordon Brown announced large efficiency savings, amounting to £20 billion a year by 2008. The public is sceptical: a Populus poll before the budget showed that 57% of people think it unlikely there will be a reduction in waste and inefficiency under either Labour or the Conservatives after the election. Of 150 businessmen polled by PricewaterhouseCoopers, an accountancy firm, 44% dismissed the efficiency drive as “pie in the sky”.

The scepticism is understandable. Politicians like to campaign against waste because it offers a free lunch: higher effective spending or lower taxes with no pain to the users of public services. This time, however, it is supposedly different because of the potential of information technology. The chancellor bases his notional savings on a report by Sir Peter Gershon, head of the Office of Government Commerce (OGC) within the Treasury.

The report, leaked in February and due to be published in its final version shortly, spells out how IT will lead to big efficiencies in government. Jobs will go; the government's multi-billion procurement bill will be honed through the use of buying agencies; “back-office” support functions will be streamlined; the government will save money by paying benefits, handling forms and receiving taxes online.

It is an enticing vision, but one that will be difficult to realise. Start with savings from job losses. Mr Brown revealed that 40,000 civil-service jobs are going to be axed, a number that is likely to increase to 80,000 in the final report. That sounds a lot, but the public sector employs more than 5m. Assuming the civil servants are on an average public-sector wage of around £24,000, the saving from a cull of 80,000 will amount to around £2 billion—a useful start but a long way off £20 billion. And Carl Emmerson of the Institute for Fiscal Studies points out that the government's spending plans until spring 2006 already take into account some 15,000 of the 40,000 job losses.

With £120 billion—on a very wide definition—spent on buying goods and services a year this might seem a potentially lucrative target. However, a recent report by the National Audit Office on the £15 billion procurement budget of central government, excluding defence and health, suggests that there are not many low-hanging fruit to pick here. In the three years to March 2003, there have been only modest annual savings of about £550m—3.6% of the total bill. The savings have been concentrated in a few departments, with a quarter made in just one, the Department for Work and Pensions.

Even so, apply this rate of saving to that total procurement bill of £120 billion and you get a handy economy of around £4 billion a year. But the NAO report shows the many pitfalls in the road to better purchasing. There is a dire shortage of skills: less than a quarter of purchasing staff are qualified in procurement. There are 250 accounting systems across central government which makes it difficult to benchmark prices and to compare departmental spending.

Nor is it clear that specialist buying agencies will help that much. The OGC has already established one, employing over 200 people, which runs electronic catalogues for services like management consultancy and IT. But civil servants say that the prices it secures are not necessarily the lowest and that better value can sometimes be obtained from smaller suppliers.

Potentially, there may be big economies from streamlining support services and by doing more business online with citizens. But William Heath of Kable, an e-government research firm, says “it has proved very hard to date to get efficiency in government from IT”. Mike Davis of the Butler Group, an IT consultancy, says that weaning the public off paper will be difficult; and that civil-service resistance to the reforms will

prove formidable.

Another reason for caution is the long history of IT projects going wrong in government, both overrunning their budgets and incurring protracted teething troubles. “Given the record of IT in government you should not be booking the savings now,” says David Heald, professor of financial management at Sheffield University Management School. Mr Heald also points out that staffing cuts could cost more money than they save in branches of government like the Inland Revenue where mistakes are costly. Over-payments of tax credits in recent years may have wasted as much as £2 billion.

Few doubt that there is scope for economies in government. What is in contention is the scale of savings and the timescale in which they can be achieved. They should be banked only when they are realised—not before.

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Bagehot

In sickness and in health

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Charles Kennedy's "turn" has raised questions about his leadership

POOR Charles Kennedy. It's so unfair. The party you lead is really not doing badly. At the last election, it wins more seats than at any time since 1929. It's currently jogging along quite nicely in the opinion polls with ratings in the low 20s—about 50% better than at the same stage in the last parliament. But as far as the media are concerned, you might as well not exist.

Until, that is, on budget day, you are smitten with a vicious tummy bug. Instantly, the rumour-mill starts churning. One theory is that you went missing because of a hangover. Another is that something more serious may be amiss. Suddenly, the speech you were going to make at your party's spring conference, the one that nobody beyond the true believers gathered in Southport is much interested in, has become a trial by ordeal. And sure enough, although you manage to soldier on through a perfectly decent speech, the pictures the newspapers splash next morning of you mopping a pallid, sweating cheek are the only talking point. And, to be honest, they are also the main reason why Bagehot too is writing about you.

In truth, even at the best of times, the Liberal Democrat leader is nobody's idea of a picture of health. The gossip about excessive drinking apart, there is no denying that Mr Kennedy smokes heavily, has little enthusiasm for fresh vegetables and is no exercise fanatic. He has been a professional politician since winning his Highland seat at the age of 23 in the 1983 election and Westminster life has taken its toll. Yet what Mr Kennedy lacks in physical energy (at Glasgow University he was known as "Taxi Charlie" because he often required a minicab to take him the quarter mile from the students' union to the lecture theatre), he has more than made up for with other qualities since taking on the leadership of his party five years ago.

Although Lib Dems had surely seen enough of him to know what they were getting before they elected him, that has not prevented a whispering campaign against Mr Kennedy from within his party. Colleagues complain that Mr Kennedy sometimes slips over the narrow line that separates an attractively laid-back approach to politics from plain indolence. They say he is disorganised, unpunctual and lacks the intellectual appetite to take more than a passing interest in the output of the party's numerous policy working-groups.

But Mr Kennedy's failings are no more than the flipside of his virtues. His distaste for the synthetic aggression that party members love goes down well with the wider electorate. The fact that he is patently not a driven obsessive, but someone who seems ready to engage in a fair-minded conversation, is a source of strength rather than a weakness. The minutiae of Lib Dem policies that have as much chance of being put into practice as Mr Kennedy does of completing this year's London marathon, are not a preoccupation of many voters.

Above all, however, Mr Kennedy is a shrewd and patient strategist. He understands much better than his activists that if they are to continue picking off Tory seats, defining themselves as being well to the left of Labour on most issues may not be the best approach. Over the past year, he has begun the slow process of weaning his party from its instinctive sympathy for public-sector producer interests and its tendency to think that the solution to every problem is to slap on a bit more tax.

The Lib Dems' recently installed Treasury team of Vincent Cable, a former chief economist with Shell, and David Laws, a banker, though saddled with the commitment to raise income tax to 50% on earnings above £100,000, is rigorous and intelligent. The home-affairs spokesman, Mark Oaten, is also a standard-bearer for the kind of practical hard-headedness Mr Kennedy favours. The party conference may have been diligently preoccupied with the twin menaces of passive smoking and plastic bags, but Mr Oaten knows he must quickly develop a new "tough liberalism" that better reflects the everyday anxieties

of his fellow citizens.

It's the war, stupid

By far Mr Kennedy's greatest success, however, has been the vindication of his gamble over the war. One year on, the country remains split down the middle over Iraq, but the Lib Dems are the only mainstream party that officially speaks for those who opposed the war. One does not have to agree with the stance that Mr Kennedy has taken to appreciate how skilfully he has handled himself. Unlike many others, not least Michael Howard, the war-supporting Tory leader, Mr Kennedy did not pre-judge the results of the Hutton inquiry and, unlike others, he has been careful to make a distinction between Tony Blair's political judgment and his personal integrity.

How much will this affect the Lib Dems' prospects in the general election that may be no more than 13 months away? Perhaps rather more than most people expect, and in different ways. Labour will pay a price, largely in even lower turnout in constituencies it will continue to hold. One or two seats in the Midlands could be lost to the Lib Dems if disaffected Muslims (36% of whom say they now support the Lib Dems according to an ICM poll in the *Guardian* last week) bother to vote. But it is the Tories who are more vulnerable. In seven out of the 15 most marginal Conservative-held seats, it is the Lib Dems who are knocking on the door. What's more, whereas (according to a YouGov poll last week) only 21% of Labour-leaning voters think military action against Iraq was wrong, 45% of Tory-leaning voters remain opposed, despite their party's position. Hostility to the war is also most concentrated among ABC1s and the elderly—precisely those people who are most likely to vote and to whom the Tories would normally expect to appeal.

Mr Kennedy should take more care of himself, but when it comes to looking after his party, he is not doing a bad job.

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Forever young

Mar 25th 2004
From The Economist print edition

More people will grow old this century than ever before. That will change the nature of retirement, says Frances Cairncross

SOMETHING unprecedented and irreversible is happening to humanity. This year or next, the proportion of people aged 60 or over will surpass the proportion of under-fives. For the rest of history, there are unlikely ever again to be more toddlers than grey heads. Already those aged 65 or over, who throughout recorded time have rarely accounted for more than 2-3% of most countries' people, make up 15% of the rich world's inhabitants.

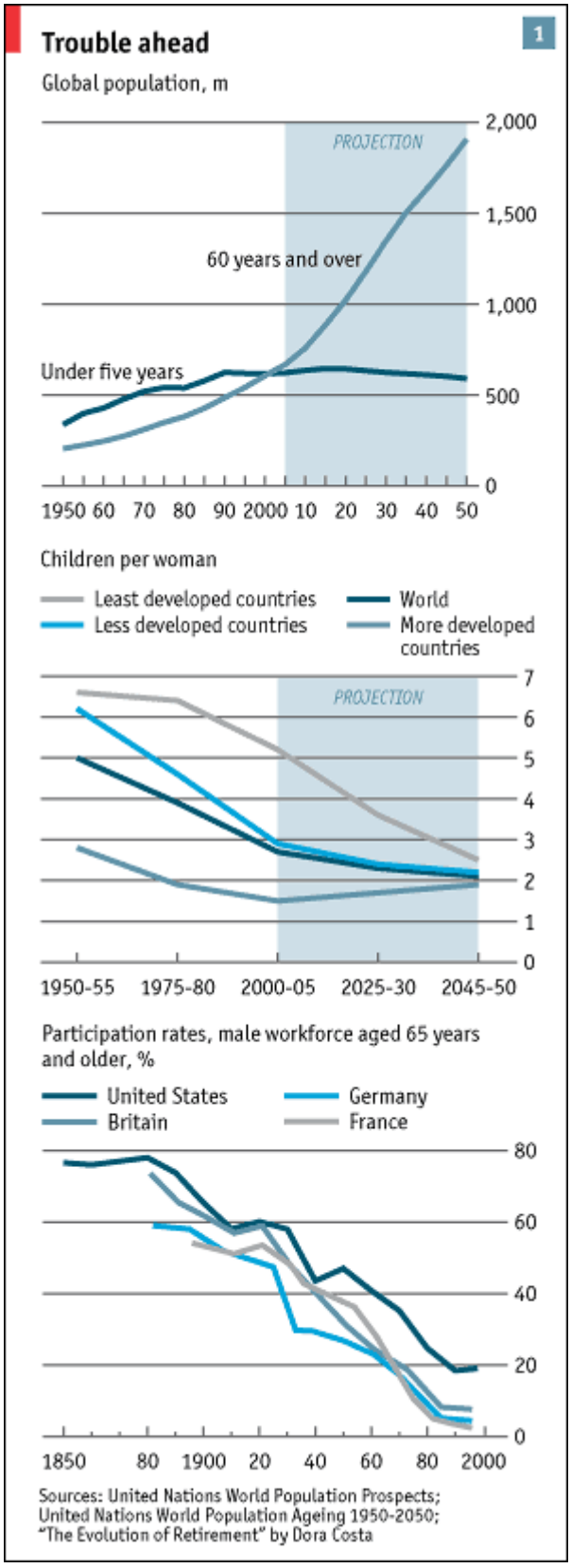
So this is the start of what the Japanese (who will have a million centenarians by mid-century) call the “Silver Century”. Most middle-aged people find it hard to think of themselves as part of this trend. When, in 1996, the first members of America's vast generation of baby-boomers reached 50, many were aghast to find on the doormat an application form from the American Association of Retired People (AARP). A generation that still pictures itself as rebels in blue jeans is bemused by the notion of imminent old age. For this correspondent, due to turn 60 later this year, the moment of truth came in a paper by a (youthful) academic: “We define as ‘elderly' people aged 60 and over.”

The rise in the proportion of the world's old will be the century's defining demographic trend. In some countries it may also determine the nature of politics, rates of economic growth (ageing countries will have slower rates of growth per head than those with younger populations) and global clout. In fact, three trends are running in parallel, each at a different pace. The first is a bulge in retirement, which will become noticeable in just over a decade. In many countries, especially in America, the birth rate rose sharply for some years after the end of the second world war. The older members of the American baby-boom generation are due to turn 62 (the minimum age at which Social Security allows early retirement) in 2008. The last baby-boomers retire in the late 2020s. But the generation, like a pig in a python, will guarantee an unusually large proportion of old folk—and then of very old folk—in the populations of most rich countries in this century's middle years.

Its impact will be aggravated by a second trend: the widespread fall in fertility rates. In most countries women on average are not having enough babies to replace the people who die. Even in more fertile America, births only just equal deaths. In some countries, mainly in continental Europe and Japan, birth rates have been below replacement for a quarter of a century. When the baby-boomers retire, the size of the working population will plummet.

That in itself is worrying enough. But there is a third problem: the old spend much more time in retirement than ever before. Life expectancy continues to rise, yet people are drawing their pensions earlier and earlier. A century ago most old people worked almost up to the end of their days. Now, by the age of 65, only 16% of men are still in the workforce in America and only 4% in continental Europe.

Thus, a larger generation of old folk than ever before will need support for longer than ever before from a population of working age that is shrinking continuously in absolute size for the first time since the Black Death. And the level of that support is unprecedented. The triumph of Europe's welfare state and America's Social Security system has been more or less to eradicate poverty among the old. All rich countries—even America—now have health-insurance systems with near-universal coverage for the retired. The cost of these benefits, in effect, falls on those in work. This has prompted books with scary titles, such as “The Coming Generational Storm” by Laurence Kotlikoff, of Boston University, and Scott Burns, a journalist.



Moreover, if things look bad in America and worse in continental Europe, they will one day look calamitous in some parts of the developing world. There, the passage of the pig within the python will be even more rapid. Countries as diverse as Brazil, Iran and Turkey will all be below replacement rate within 15 years. China's huge Red Guard generation—its equivalent of America's baby-boomers—reaches retirement age around 2015. Meanwhile, thanks to China's one-child policy, the fertility rate has plunged from six to seven children per woman in the 1960s to below replacement rate. Richard Jackson of the Centre for Strategic and International Studies (CSIS) in Washington, DC, author of a study of demographic change called "The Greying of the Middle Kingdom", thinks that China's leaders will find it hard, after years of relentless growth, to adjust to a fall in the population of working age from the middle of the next decade.

In a decade's time, many countries thus start to face a huge problem: how to support a vastly larger

population of old folk. There are only three ways to provide income in old age: one, to store goods for later consumption, which in practice doesn't work (just try storing a hip-replacement operation); two, to exchange current production for claims on future production, by saving or by extracting promises from your children or the government; and three, to go on producing yourself.

Better than the alternative

This survey will argue that the promises governments have made to people retiring today are too large to be met in full. As a result, people will have to work longer, and retire later, than they do now. And the old will have to insure themselves for more of the cost of health care.

Fortunately there is a time window, of about a decade, during which the population of working age will be at a historic high. Projections by the OECD in Paris show that the impact of retiring baby-boomers will not begin to be felt until the next decade, and will culminate in 2025-35. So governments have a chance—but one that they must grab fast.

It will not be easy. The notion of retirement—an abrupt end to paid employment—is relatively recent but has been hugely popular. Cutting it back is expected to cause uproar. Dora Costa, an economist at the Massachusetts Institute of Technology (MIT) who wrote a brilliant history, “The Evolution of Retirement”, points out that people began to reduce the length of their working lives as soon as they could afford to do so, and long before generous social benefits were widely available. Not only do the old live longer than ever; the range of pleasures available in retirement, such as foreign holidays and home entertainment, are more varied and less expensive than ever before.

The longer that countries postpone the steps needed to make retirement sustainable, the more abrupt and damaging the transition will be. But given the will, change is possible. Pioneering work by two American economists, Jonathan Gruber and David Wise, has shown that retirement decisions are greatly influenced by the structure of pensions and other benefits. If it pays to stop working, people will. Driven by fiscal desperation, governments will increasingly steel themselves to alter the way benefits work.

Once that change begins, there will be jobs for those who want them. When the baby-boomers start to retire in large numbers, they will empty out workplaces—such as public services—that now have lots of staff in their 50s. To replace them, employers will have to come up with the sort of flexible deals they once used to attract women back to work. That may make it more appealing to continue to work.

Indeed, the workplace revolution that lies ahead may be very like the one that, in the course of the 1970s and 1980s, brought millions of mothers into the job market. Since then, the workplace has been feminised; in future it will be grizzled. A quarter of a century from now, retirement will look different from the way it does now: a mix of work and gardening, rather than gardening alone. For older people, work may then offer some of the charms that have lured so many women into the job market: stimulus, companionship and the freedom from worry that a bit of extra money can bring.

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A long, long life

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But longer if you are rich and well educated

“WHAT a drag it is getting old,” warbled the Rolling Stones, long before Sir Mick Jagger became a wrinkled grandfather. It is a bigger drag for some than for others. The experience of retirement is changing as the old become wealthier and healthier. But the class divide matters more in old age than at any other time of life.

At least in most wealthy countries old age is no longer synonymous with poverty. Elderly widows often get a raw deal. But a study of pensioners in nine countries by the OECD found that their disposable incomes averaged 80% of those of comparable people in the later years of working life. In some countries, being old is now positively cushy: Mr Jackson of the CSIS has calculated that the overall income of Germans aged over 60, after taxes and including the value of health care, is 25% higher than that of younger Germans.

Not only are the retired wealthier than ever before, thanks mainly to the largesse of the state; they are healthier too. In the mid-1990s, American researchers made an extraordinary discovery: people who lived longer did not, in fact, suffer more years of ill-health. Indeed, in many countries rates of severe disability in old age have been declining, though nobody knows why, or whether the decline will continue. But it seems that more years of life do not mean more years of disability. What appears to determine the onset of infirm old age is not the number of years from birth but the number to death.

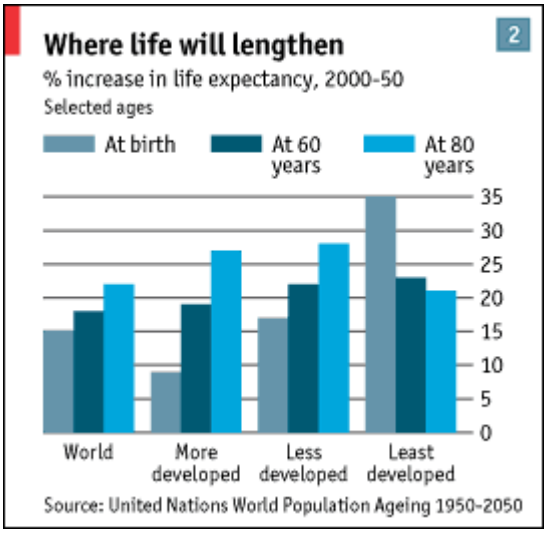
In fact, many old people seem positively sprightly. One large study (“The 2002 English Longitudinal Study of Ageing”, or ELSA) found that even the older old were often in surprisingly good shape, physically and mentally. For example, 30% of men in their 80s described their health as “very good” or “excellent”, and another 30% as “good”. Or take walking: 72% of women and 84% of men aged 80 to 84 have no difficulty walking at a speed of 0.4 metres a second (about 0.9 miles an hour).

Wealthier and healthier, the old also live longer than anyone has done before. Already, more than half of America's 74m baby-boomers will probably see their 85th birthdays. Hallmark Cards now sells about 85,000 100th-birthday cards a year. It sees a growing market: the number of centenarians has doubled every decade since 1960 in most countries. In Japan, the population aged 105 and over rose from 11 in 1963 to 1,064 in September 2003. By 2050, America's centenarians will number twice the current population of Washington, DC.

In the first half of the 20th century, lower death rates in early life accounted for much of the increase in life expectancy. But the recent increases have come almost entirely from changes after the age of retirement. For instance, the extra life-span a British man could look forward to on his 65th birthday increased by only one year between 1840 and 1960, but by more than four years between 1960 and 2000.

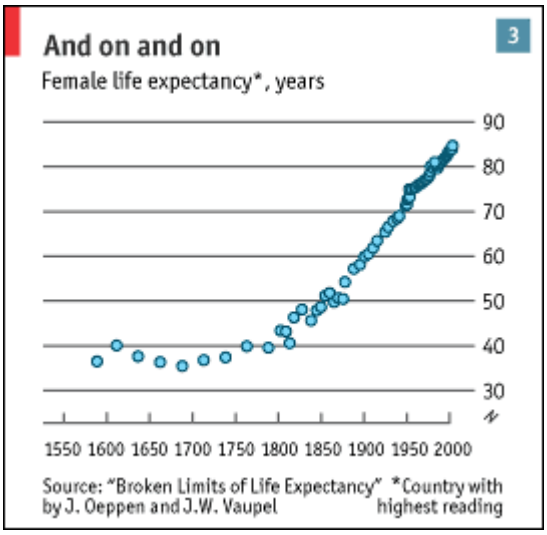
How much longer might we eventually live? The human life span seems to be increasing. Indeed, for every year since 1977, the world's oldest validated death has been at 110 or later (and the five oldest people whose ages have been validated died in the past decade). But Jeanne Calment, the French woman who died in 1997 at the age of 122, is still unique. However, some scientists believe that the ceiling can be raised much further. Three years ago Steven Austad, head of the department of biological sciences at the University of Idaho, bet Jay Olshansky, of the University of Illinois, that by 2150 somebody will survive to the age of 150 with his or (more probably) her cognitive abilities intact.

What is important in demographic terms is not so much maximum life-span but average life expectancy at birth. Ronald Lee, an economic demographer at the University of California, Berkeley, who has pioneered a technique for extrapolating from historic trends, argues that life expectancy at birth in the United States could reach 85 by 2065.



Easier for the educated

Using a different approach, James Oeppen of Cambridge University in Britain and James Vaupel, an American demographer who heads the Max Planck Institute for Demographic Research in Germany, have noticed that life expectancy in the countries where people already live longest has risen by a constant two-and-a-half years a decade since 1840. The groups that did best—Swedish women in the mid-19th century, Japanese women today—extended their life expectancy by a fairly steady three months a year, year after year (see chart 3). In an article in *Science* magazine in May 2002, the two demographers argued that the four-decade increase in life expectancy since 1840 is so linear that it "may be the most remarkable regularity of mass endeavour ever observed".



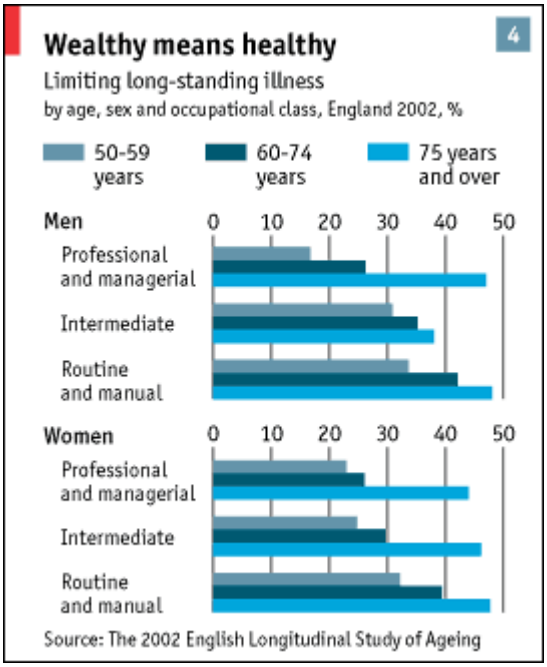
Onward, ever upward

Such findings have shaken even those who have worked longest on old age. "The astounding evidence", says Richard Suzman, associate director for behavioural and social research at America's National Institute of Ageing, "is that the increase in life expectancy has been fairly constant over 200 years." If the Vaupel calculus holds, life expectancy at birth will reach 100 in some countries by the end of this century. Other demographers make similarly astonishing projections.

What has brought about these remarkable changes? Much of the answer seems to be better health in the womb and in early childhood, less smoking, less exhausting and dangerous jobs, and better education. The baby-boomers will be the best-educated old folk ever. That alone should add to their life expectancy, even if rising obesity and alcohol and drug abuse reverse some gains.

But medical advances have also played a part, and may well play a bigger one in future. For example, deaths in the United States from coronary heart disease have fallen by 40% since 1980. Safer anaesthetics and keyhole surgery have meant that 85-year-olds now enjoy success rates in operations that would previously have been expected in 60-year-olds. A new review of the scope for further advances published by the Brookings Institution ("Coping with Methuselah: The Impact of Molecular Biology on Medicine and Society", edited by Henry Aaron and William Schwartz) argues that molecular biology may yet deliver "truly revolutionary" advances in longevity. Health in early childhood continues to improve; tall people have lower rates of coronary heart disease and live longer than short ones, and today's children still outstrip their parents. Moreover, all sorts of interventions late in life can now help to postpone death. And the discovery of special genetic characteristics in especially long-lived people may allow for genetic manipulation to extend life even further.

If that happens, societies will increasingly debate the ethics of longevity. A world crammed with octogenarians may question whether it is right to give very old people extra years of life, even if those years are healthy.



Is it worth it?

One of the most striking things about old age is how much the experience differs, depending on the sort of life the individual has led. In most countries, people in the top social class live around five years longer than those at the bottom of the heap. In Britain, the ELSA study suggests, being well-off and well-educated postpones by about 15 years the onset of mental and physical disability compared with being in the lowest social group.

There are big differences between social classes in life expectancy, and even bigger differences in healthy life expectancy. So the poor and uneducated are not only likely to live in worse neighbourhoods, where crime and loneliness are widespread, neighbours are unfriendly and trust is low; they also score worse on health in old age, mental ability and life expectancy. Those aged 50-59 in the lowest social class have more long-standing illness than professional people aged 60-74; and those in their 50s with little education have lower abilities to remember things and solve simple puzzles than do those with a university degree at the age of 75 and over. Even the curse of dementia and Alzheimer's disease appears to be less common among people in the higher social classes and among the well-educated.

Some of the difference can be explained by the unhealthier lives poorer people lead: they are, for instance, more likely to smoke cigarettes and to be overweight than wealthier and better-educated folk. But, says Sir Michael Marmot of University College London, who led the study, the smoking habits of the poor explain only around a quarter of the differences. What matters more is where people stand in the social pecking order, and also where they perceive themselves to be. People who rank themselves lower in social status suffer worse health than those whose self-ranking is more favourable, even allowing for differences in wealth. “My hypothesis”, says Sir Michael, “is that how much control you have over your life will be an important predictor of mortality and health after retirement.” Women who feel they have control over their home lives are less likely to suffer heart disease than those who do not.

Similarly, an American study, entitled Health and Retirement (on which ELSA is modelled), found that someone of 50 with little education has the disease pattern of an educated person ten years older. And the gap is widening. In 1960, mortality rates for white American men with the highest levels of education were roughly 10% lower than those of white men with the least education. By 1990-97, the difference had increased to 70%. A similar, though much less pronounced, trend was observed in the mortality rates of white women.

Both the general rise in life expectancy and the widening gap between the elderly rich and poor have implications for policy. For one thing, living longer imposes a “longevity risk”—the unforeseen cost of extra years of life—on both the individual and on society. For another, those who have been poor throughout their lives are particularly in need of help in old age. They are likely to have no savings, and to be more infirm, live in nastier neighbourhoods and lead lonelier lives. All that might seem to justify a measure of redistribution. But under many pension schemes, the poor actually do worse than the rich: because they die earlier, they draw their state pensions for a much shorter period of time. In designing sustainable support for the old, governments need to take both these points into account.

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Old? Me?

Mar 25th 2004
From The Economist print edition

The new leisured class

NO CAR in the United States relies more on the septuagenarian motorist for its sales than the Buick Park Avenue. Half the people who bought this stately mid-sized luxury model last year were 70 or over (see table 5). But what do those on the eve of retirement buy? Nearly half the buyers of the BMW Z3, a snazzy little sports car, were in their 50s.

And if not a BMW sports car, then perhaps a Harley-Davidson. Last summer the AARP's magazine ran an article on older bikers, pointing out that over half the buyers were 45 or older and interviewing a gutsy 62-year-old lady who ran the Brooklyn chapter of the Harley Owners Group.

Guessing from the habits of today's old folk what tomorrow's will be like is almost certain to produce the wrong answer. The baby-boomers have done many things later than their parents did, and a few things that the old folk would never have contemplated. They married late and had families late. Quite a few men in their 50s and 60s are in a second marriage, and still raising school-age children. When, a few years ago, the AARP interviewed people about life's pleasures, it found that 61% of men aged 55-64 and 66% of 65-pluses thought they got as much (or more) fun out of life as they had at a younger age.

Each generation is shaped by its experiences early in life. The baby-boomers matured in vibrant days for politics and culture. Last year Demos, a British think-tank, compiled evidence from a variety of sources to portray “The New Old”. It found Britain's baby-boomers are less deferential and less conformist than either older or younger age groups. They are ardent consumers, used to experimenting with brands; they are relatively libertarian, having grown up with women's lib and marijuana (which 27% claim to have used); and they know about ethical consumption: 23% have boycotted a company's products at some point, compared with 13% of the older generation. Only 15% agree that men should earn and women stay home, compared with 39% of older folk.

They are also better educated than older age groups. That may be crucial. It will help to determine not just their health, but how they spend their new-found leisure. Atsushi Seike, a professor of labour economics at Japan's Keio University, argues that today's old in his country do not have the skills to enjoy their leisure, but thinks the next generation does.

The spending patterns of tomorrow's old matters to many companies, which see the largest age group in their market steadily ageing. People tend to spend less when they retire, but they are still a lucrative market. Mariko Fujiwara, who runs the Hakuhodo Institute of Life and Living, a think-tank attached to Japan's second-largest advertising agency, has studied Japanese people in their 50s and 60s and found that they are active, well-informed and often wealthy. Those in Tokyo have become avid consumers of take-away food. When the Okura, one of the ritziest hotels in the city, began to offer home-delivered sushi, its sales quadrupled in a year, with an average order of ¥18,700 ($170). The main customers were well-to-do retired folk.

All sorts of products that promise to hold back the years are pouring on to the market: not just expensive sports cars but hair colours and anti-wrinkle creams, Viagra and hormone-replacement pills, exercise machines and travel catalogues. Japanese electronics companies such as Matsushita and Panasonic are racing to develop specially designed showers and kitchen appliances for older people. Smith & Nephew, a large European orthopaedics group, is enjoying steeply rising sales as the fairly old begin to buy hip and knee replacements. And at the World Economic Forum in Davos earlier this year, Royal Caribbean Cruises told grey-haired industrialists that the retired are essential to the economics of the industry, because they can fill ships at any time of year.

Youthful advertising executives find it hard to understand this market. The AARP recently ran a campaign saying, “To most marketers, consumers die the minute they turn 50.” But the market is genuinely tricky.

Show a pair of silver-haired figures wandering hand-in-hand along the beach and you may lose your audience. One answer, argues Simon Silvester of Young & Rubicam, is to invoke nostalgia, as with an advertisement for Coors beer recalling skiing expeditions of the 1960s. Another is to show Lauren Hutton, whose 60-year-old glamour works with young and old.

Magnum

Let's stay here

There is also a deeper problem, says Thomas Heilmann, chief executive of Scholz & Friends, Berlin's biggest advertising company. Not only are older people slower at adopting innovation and new brands; but a product that gets a reputation for being an old person's brand loses value in the market at large. Worse, “If I can convince someone of 25 to drink my coffee, I have a customer for 65 years. If I convince someone of 70 to change, I may have a return for only ten years.”

The retired find themselves suddenly time-rich after a lifetime of time-poverty. Travel mops up lots of time at first. The Hakuhodo Institute found that a third of Japanese 50-60-year-olds gave overseas travel as their favourite activity, with the Italian cities, Paris, London and Vienna topping the list. In Germany, say researchers at the Institute for Tourism, the fastest growth in demand for holiday travel in 1972-99 came from people aged 60 and over. Once again, the older travellers are adventurous. Of travellers who were in their mid-50s in 1999, 76% took holidays abroad—a sharp increase from the 48% of the same age group who took foreign holidays back in 1975. Among those who were 79 in 1999, 43% were still holidaying abroad.

Some of the travelling by the newly retired involves finding somewhere agreeable to live. Because they no longer have to turn up for work, the retired can set up home more or less wherever they like. Alan Fox, who edits a magazine called *Where to Retire*, says that Clark County, Nevada (which includes Las Vegas) is now probably the most popular destination for migrating oldies. Already Nevada has more retired Californians than retired Nevadans, he says. His readers' top three requirements are a low crime rate, an active, clean and safe downtown, and good hospitals nearby. They bring property investment, bank accounts, business for local doctors and tax revenue. Increasingly, southern states fight to attract them.

Florida, in spite of having America's largest number of golf courses, has been losing popularity. Some of the retired, says Mr Fox, have become “half-backs”: people who have moved to the state from New York and then changed their minds and headed half-way back, often ending up in the Carolinas. In 2002 Governor Jeb Bush, spotting this trend, set up a special commission to recommend ways to make Florida “more retiree friendly”. The commission's report, published last year, pointed out that retired people attracted a monthly $2.8 billion in pensions and other benefits into the state. They contributed much more in sales taxes than the state's younger citizens, and paid more in state taxes than they received in social benefits. The commission offered a string of suggestions for attracting more golden oldies, including an advertising campaign on the joys of retiring to Florida.

Time's fell hand

As the years pass, even today's rebellious nearly-retired may find that some of their preoccupations

come to resemble those of today's greybeards. High on the list—almost as high as worries about the quality and cost of health care—is driving. In societies built around the car, a driving licence becomes a passport to more than just mobility. A horrid accident last year, when an 86-year-old man drove through a market in Santa Monica, California, causing ten deaths, sent a shiver through the ranks of elderly drivers. In America, only two states (and the District of Columbia) require drivers aged 75 or over to take a new test before their licence is renewed. A few years ago, older voters fought off such a requirement in California.

Joseph Coughlin, head of the AgeLab at MIT, is researching the way older people drive. One focus group of older men told him, “You can always get another wife; you can't get another driving licence.” Older drivers are involved in more fatal accidents than the middle-aged, but he argues that this is because they are frailer, and so more likely to be killed in a crash. Their overall accident rate rises around the age of 70, but not by much: older people drive fewer miles, stay off freeways, avoid driving at night and generally steer clear of situations that lead to accidents.

Grey horsepower 5

United States, top five vehicles
by % of purchases in each age group

50-59 years	60-69 years	70 years and over
BMW Z3	Lincoln Continental	Buick Park Avenue
Infiniti G35	Cadillac Eldorado	Buick LeSabre
Mercedes CL Class	Lincoln Town Car	Mercury Grand Marquis
Chevrolet Corvette	Cadillac DeVille	Lincoln Town Car
Lexus RX	Buick Park Avenue	Buick Century

Source: J.D. Power & Associates Combined Light Vehicle Report 2003

What is the alternative to a life on wheels? Augusta Winebrenner took the sensible step of moving to a “life-care facility”, a community of 1,000 older people who live in little houses and apartment blocks around the lakes of John Knox Village, in Florida's Fort Lauderdale. She came from Boca Raton a quarter of a century ago with her sister, having decided that it was important to live somewhere where they could be driven once they could no longer drive. But the move has brought other benefits. The village bustles with social activity and volunteer jobs. Now 103, Mrs Winebrenner works as a librarian and growls about residents who fail to return popular volumes on time. Bob Milanovitch, the genial marketing director, who came to run the village at much the same time as MrsWinebrenner took up residence, describes John Knox as a cross between a cruise ship and a college dorm. The daily programme offers everything from Spanish lessons to line dancing.

Too much of a good thing

Such activity is surely better than the lonely life led by too many retired folk. The cheapest way to fill idle hours is to switch on the television. Time spent watching the box increases by two to three hours a day between the 45-54 age group and the one over 74. Men in particular, unused to a life not dominated by employment, often find adjustment hard, says Mr Coughlin. Women have built a neighbourhood network, whereas a man's social life revolves around work.

Katharine Whitehorn is the agony aunt for Britain's *Saga Magazine*, read mainly by older people. She receives lots of letters from the tormented spouses of newly retired husbands, who expect their wives to fill in for everything they have lost at work. “He retired two years ago and I am having a nervous breakdown,” screamed one. When her friends visited, he would neither join them nor go out, but would sit in the kitchen with the door ajar, rustling the newspaper. “When a husband makes his wife give up the things she has always done, she becomes more vulnerable,” says Miss Whitehorn.

However grim work may be, can it really be worse than daytime television? The best way to greet old age is surely to go off on that cruise and perhaps buy a holiday home in the sun—but then swap full-time for part-time work, with the regularity, companionship and cash that it brings. Given the prospects for pensions, many retired folk may not have much choice.

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Enough to live on

Mar 25th 2004
From The Economist print edition

For now, at least

TO BE old was once to be poor. No more: governments have taken over many of the costs and risks of ageing. The burden of paying for pensions and health care therefore falls mainly on those in work. That has not seemed a problem as long as economies and the workforce have grown steadily and the old have been relatively few in number. However, within a decade that comfortable arithmetic will end. The fundamental decision about how to distribute the costs of old age between the elderly and their children will therefore become harder to resolve.

In February, Alan Greenspan, chairman of America's Federal Reserve Board, said that “we will almost surely be unable to meet” the demands on resources that the retirement of the baby-boom generation will create. Almost everywhere else, the trouble is not—or not just—the baby-boomers, but the fall in fertility. The cost of pensions and of health care for the old must eventually be paid from the output of the current generation of workers. Even if birth rates recover a bit (and there are signs that they may do), solving Europe's pensions problem will be a nightmare. If the workforce shrinks and the number of dependants grows, no amount of fancy finance can fill the gap. That is why—to repeat this survey's main message—it is vital to ensure that more older people go on working, and so make their own contribution to output.

Tackling other labour-market rigidities that keep people out of jobs also becomes urgent: Italy has insanely high youth unemployment, for instance, and Germany has Europe's highest unemployment among the unskilled. Immigration can help too, but only a bit: Germany by 2020 will be 300,000 births a year below replacement level, calculates Ralf Ulrich, a demography professor at Berlin's Humboldt University. That is one-and-a-half times the average annual level of immigration over the past 30 years. If the gap between births and deaths were to be filled entirely with immigrants, the numbers would get simply too large for such societies to digest. Besides, immigrants themselves eventually grow old, and are then disproportionately likely to be poor.

The hardest part of reform, though, will be to persuade both today's and tomorrow's pensioners that retirement will entail bigger financial risks than it has done in the past. In fact, governments everywhere are engaged in pension reform. Few have yet begun to give the same attention to health care. Yet the future burden of health-care costs could easily be at least as great as the cost of pensions.

Howard Oxley of the OECD estimates that, without change, the cost of pensions will take an extra three percentage points of the GDP of the rich countries by 2050; health care could take an extra two-and-a-half to three percentage points, of which one would be the cost of long-term care. A different sort of estimate, for the United States alone, by Jagadeesh Gokhale and Kent Smetters for the American Enterprise Institute, puts America's total unfunded liabilities at around $44.2 trillion. But most of that—$36.6 trillion—is attributable to Medicare, not to Social Security (the state pension scheme).

However, it is harder to predict the costs of health care than of pensions. In general, says Henry Aaron, an economist at the Brookings Institution, health costs per head rise with age. But does this mean that, if the average 75-year-old has a life expectancy of a quarter of a century, he will need the same level of health care as a 75-year-old today? Or as someone today with 25 years of life ahead? On balance, he says, the years to death are likely to matter more. Moreover, one of the odd and unexplained quirks of health care today is that 90-year-olds seem to absorb less of it than 75-year-olds. Nobody knows whether this is because hospitals offer them less, or because they keel over more quickly. The answer is probably a bit of both.

However, of the disabilities that increase with advancing age, some will be particularly expensive to tackle: Alzheimer's afflicts only 3% of Americans aged between 65 and 74, but 47% of those over 85. And the sheer rise in the numbers of old people will drive up health-care costs. So no government is

likely to avoid the need for reform.

In America, Boston University's Mr Kotlikoff suggests giving individuals vouchers with which to buy health insurance, and pegging the overall value of the vouchers to the growth of the economy, to make sure that the costs of health care do not outstrip real earnings. In Germany, health care costs more per head than anywhere except America and Switzerland. Axel Boersch-Supan, an economist at the Mannheim Research Institute for the Economics of Ageing, who has played a leading role in proposing pensions reform, argues that it is dangerous to have pay-as-you-go funding for health care when a country is ageing as rapidly as Germany is doing. However, on both sides of the Atlantic, reforming health care will be politically even more perilous than reforming pensions. Governments are likely to duck the issue for as long as they dare.

Someone has to pay

With pensions, on the other hand, most governments are now attempting reform. Some, notably Sweden, Italy and Chile, have put path-breaking reforms in place. Others, such as the United States, Britain and Germany, have set up top-level commissions to produce ideas. But there is a difference. The scale of the problem in the United States and other English-speaking countries is modest compared with that in continental Europe.

America's unfunded pension liabilities—$10.5 trillion at the latest estimate by the Office of the Actuary—are larger than its economy. But some continental European countries have unfunded liabilities of up to two-and-a-half times the size of their economies. They also start with higher social-security contributions and more generous benefits to the elderly. For example, the CSIS's Mr Jackson points out that Germany already has some of the world's highest payroll taxes, and benefits to the elderly already account for 33% of government outlays and 15% of GDP (see chart 6), so there is little scope to raise taxes further. And the fact that Europe's pensioners rely more heavily on the state for their incomes will make it far more difficult to reduce benefits.

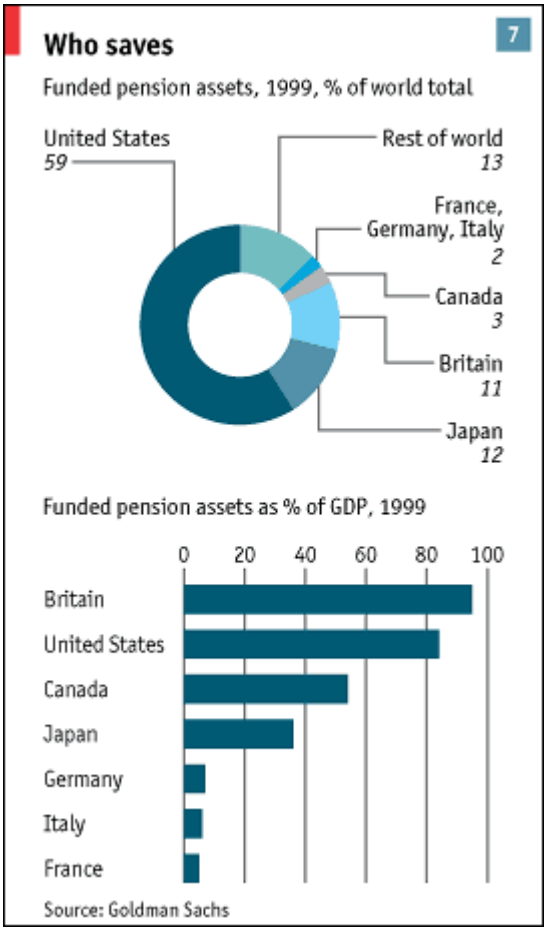
In America, by contrast, pensions are lower. The average pensioner typically receives only 45% of the income he earned before retirement; the average Austrian, 78%. In addition, America's workforce is not imploding: high rates of immigration and so high fertility rates have kept up the supply of youngsters.

The prospect of a large hole in America's Social Security fund has attracted lots of schemes for reform. But resolving America's Social Security problem is “a piece of cake”, says Peter Diamond of MIT, at least in comparison with the prospective bill for health care. He has just published a book (“Saving Social Security: A Balanced Approach”) with Peter Orszag, another distinguished economist, explaining how they think it could be done with only moderate pain. Fairly modest tax increases and curbs on the distribution and scale of benefits would, if made quickly enough, bring the budget under control.

Boston University's Mr Kotlikoff agrees: “I could fix it in ten minutes if I were president,” he says. He, too, worries more about the billowing cost of health care than about Social Security, which could be partly squared with a new federal sales tax. That might be unpopular, but it would be a good way to ensure that the elderly carry some of the cost. One of the main challenges of reform everywhere is to persuade the retired that they must share the burden of change.

Promises, promises

Two main issues dominate the debate: whether pensions should be financed from past savings or from current revenues; and whether the benefits they provide should be linked to past earnings or to some other predictable marker ("defined-benefit" schemes), or to savings and the return earned on them ("defined-contribution" schemes). A third issue, dealt with in a later article, is how to redesign pensions to reduce the incentive to retire early.



State pensions everywhere are largely pay-as-you-go, and entirely so in continental Europe. Several of Europe's governments are now considering switching. The problem is that one generation has to pay twice: once to finance the pensions of today's old, and once to fund its own pensions. One device, employed in recent pension reforms in Sweden and Italy, is for the government to introduce "notional defined contributions", granting credit for the years people work. The government records all contributions, and then adds a notional rate of interest. The scheme can remain pay-as-you-go.

Private-sector schemes have mostly been funded. But not in Germany: there, 58% of company pension schemes are on-balance-sheet book reserves, says Dieter Bräuninger, a senior economist at Deutsche Bank Research in Frankfurt. International investors do not like these huge unfunded liabilities, so big German companies are now struggling to set up funds.

Funded schemes, whether run by the state or by companies, do not escape the fundamental dilemma: that all the cost of supporting the old has to come from the output of those currently in work. In that respect, they are not really different from pay-as-you-go: somebody has to foot the bill, and only today's workers can do so. However, funded schemes have two strengths. They reflect past saving, and thus boost future output; and they can invest abroad. That, says Helmut Reisen of the OECD, allows them to "beat demography". That may be riskier than investing at home, but it allows future pensioners to acquire claims on the output of younger workers not just in their own country, but in other countries as well. "You can't tax people in other countries, but you can invest in their industries," explains David Willetts, a British Conservative MP who has written a book on demographic change and pension reform.

The question of defined benefits versus defined contributions raises another core issue: that of allocating risk. Any scheme that pays defined benefits imposes risks on workers. They suffer if they leave early, or do not earn as much as they expect in the crucial, final years of working life. But the risk of low returns on their contributions is transferred to other people: taxpayers for state pensions, shareholders for company pensions. Schemes whose value is determined by the level of contributions and the return on investments, such as the 401(k) plans on which Americans increasingly depend for their pension income, or the defined-contribution schemes to which British companies are switching in droves, impose on the individual two further risks: of earning insufficient returns, and of living unexpectedly long.

In future, government schemes will probably retain some element of defined benefit, providing a guarantee against poverty in old age of which the taxpayer will carry at least part of the cost. However, pensioners, rather than current taxpayers, will carry some of the "longevity" risk of extra life expectancy. Sweden and Italy both make provision for regularly recalculating the future cost of pensions and passing on part of the longevity risk in the form of lower pension entitlements. So, as life expectancy in old age grows, benefits will rise more slowly than they would otherwise have done—or even decline.

One group is likely to escape these constraints, at least for the moment: public-sector workers. Every big country tends to reward its own servants by promising them that the taxpayer will care for them in old age. In some places (as in Germany) the public servants do not even contribute to this luxury. In Britain, where swathes of employees have been shut out of their private-sector employers' defined-benefit schemes, teachers, civil servants and police continue to enjoy such benefits. They will add vastly to public-sector payroll costs as their workforces retire.

In some developing countries this is an even more serious problem, because public servants are often the only people with formal pension arrangements. The World Bank calculates that in Malawi, where the

first generation of post-colonial teachers is reaching retirement, pensions shot up from 11.6% of teachers' remuneration to 35.5% in the five years to 1999-2000. In Brazil, civil servants account for 5% of the workforce but 50% of pensioners.

For everyone else, old age will become financially riskier. To guard against that risk, individuals will have to save. They will do so mainly through tax-sheltered savings schemes. Such schemes are the right option for company pensions. Defined-benefit schemes are difficult to transfer from one employer to another, so younger, footloose employees end up subsidising older stick-in-the-muds. “A private-sector defined-benefit scheme is a surprisingly effective way of redistributing money towards the rich,” observes Adair Turner, who is heading a commission on pensions policy in Britain. Such schemes also give employers an easy (if expensive) way to get rid of older workers by paying them to retire early. Such payments are harder to make, or at least to fudge, if a pension is run as a savings account.

By contrast, defined-contribution schemes allow savers to see how much capital they have accumulated, which may make them think more carefully about the money they will need in retirement. Generally, American evidence suggests, they then decide to work longer.

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Save, save, save

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You may live longer than you expect

IF GOVERNMENTS no longer guarantee to replace the bulk of earned income in old age, individuals will have to do so themselves. Already, saving for retirement is being transformed. In America, the country that has travelled farthest down this road, private savings in retirement accounts are set to become a more important source of income in old age than Social Security. Other countries will eventually head in roughly the same direction.

People will have to become better at guessing how much they need in retirement. They seem to have a good idea how long, on average, they can expect to live. But for the individual, life expectancy can play tricks. A 65-year-old man in America has an average life expectancy of 16 years, points out Olivia Mitchell of the Wharton School, but an 18% chance of living to 90 or beyond. A 65-year-old woman has almost 20 years of life expectancy, but a 31% chance of living to be 90 or older.

Guessing when the grim reaper will arrive is tricky; guessing how much money one will need in old age is just as tough. In both America and Germany, consumption tends to dip sharply after people retire. That may mean people find they need to spend less. But it may also show that they underestimate what they need. Some evidence for that comes from a survey by the Prudential, a giant British insurer, which asked a sample of people how much they thought they would need to live on in retirement. The average was £18,000 ($32,500) a year. But half the respondents had no idea what level of savings would deliver such a sum. The other half guessed on average that savings of £115,000 would generate that amount; in fact, the true figure is far higher.

Getting people to save for retirement voluntarily is difficult. More and more countries will create schemes similar to the 401(k), America's tax-sheltered savings plan that many companies offer their employees. In doing so, they need to learn some lessons from America's experience.

By the late 1990s, about 85% of private pension-plan contributions went into 401(k) and similar plans. Of those American workers with a private plan (about half the workforce), 58% had nothing else. But do such plans offer adequate protection? A new book by Alicia Munnell of Boston College (“Coming up Short”) argues that they don't.

“People make mistakes all along the way,” she says. First, 26% of eligible participants fail to join a 401(k). Second, fewer than 10% of participants contribute the maximum. Most invest badly: more than half either put nearly all their savings into equities, or none. Hardly any of them rebalance their portfolios to reduce risk as they age. A scary 17% of all such plans are invested solely in the shares of the saver's employer, thus doubling the risk if the company fails. And 25% of workers who move jobs do not reinvest the cash from their 401(k) in another plan at their new employer. Lastly, on retirement, few workers invest any of their 401(k) pay-out in an annuity to guard against the costs of living longer than they expect.

It may be that Ms Munnell's view is too bleak. A series of important studies of 401(k) plans by James Poterba of MIT and a group of fellow economists suggests that such plans have been a staggering success. They find that employees save roughly twice as much with 401(k)s as with traditional defined-benefit schemes. This is partly because it is easier for employees to see what they have built up with a 401(k). But employees who depend on a 401(k) are also likely to work longer, and so to accumulate more assets before they retire. Remarkably, most of the savings seem to be new money, not money diverted from other savings schemes.

Overall, Mr Poterba and his colleagues estimate that the average household reaching retirement in 2025 will have as much wealth accrued in 401(k) plans as in Social Security benefits—and that figure includes everyone, not just those with 401(k) plans. It implies that wealth in pension plans will rise roughly ten

times in importance. As for the premature withdrawals, most are made by young workers, removing the small sums they have in their accounts when they change jobs. Such withdrawals reduce saving at retirement by around 5%, an inconsequential amount.

All this hugely strengthens the argument that other countries should copy America's provision. They may be tempted to make private pensions compulsory. Australia and Chile already have successful compulsory private schemes. Germany has introduced a voluntary private scheme, which has so far been a flop. A danger with compulsory schemes is that workers may run down other, voluntary savings. And when there is a generous state safety-net, poorer workers will often choose to spend now rather than to save.

An alternative is to give savers less choice in more sophisticated ways. David Laibson, professor of economics at Harvard University, and various colleagues conducted three experiments, which suggested that the way workers respond depends on how the savings choice is presented. When one scheme left it to the workers to choose whether or not to enrol in a 401(k), more than 90% did not; when they had to make an explicit choice to refuse to enrol, that figure fell to only 30%.

A second experiment found that, if workers were advised to save more, they often said that they could not afford to do so—or agreed, but did nothing about it. However, if most of a worker's pay rises were channelled automatically into a 401(k), he usually left the money to accrue. This was true even when the pay rise was merely to compensate for inflation, and saving more thus cut real spending power.

Mr Laibson's third study found that, if new employees at a firm were given no deadline for joining a 401 (k) scheme, only one-third of them eventually enrolled, but with a deadline two-thirds did. Mr Laibson would like to see 401(k)s redesigned to reflect these discoveries. He also suggests extending the principle to set a ceiling on the share held in a company's own stock, unless an employee asked otherwise.

You can't take it with you

Such changes would encourage people to save more without compelling them to do so. But what happens when people reach retirement? How should they decide on their rate of spending?

Happily, the insurance industry long ago created a product that should solve the problem: the annuity. Pay a lump sum, and the insurer guarantees you an income to the end of your days. However, people are extraordinarily resistant to the notion of buying an annuity. Ron Gebhardtsbauer, of the American Academy of Actuaries, speaks from personal experience: he found it hard to persuade his elderly parents to put even part of their retirement savings into one.

Why should that be? His parents wanted to leave something to their children, but some annuities allow for that. Financial advisers tend to urge older people to invest directly, rather than with an insurance company, because the commission is juicier. Above all, he thinks, the sum needed to buy an annuity seems intimidatingly large to an old person. Wharton's Ms Mitchell, who has studied the resistance to buying annuities on both sides of the Atlantic, argues that in Europe, generous social security may be a further deterrent. And perhaps the searing experience of inflation in the 1970s, when savings were wiped out, is remembered vividly enough to put off today's old.

As public provision wanes, the demand for annuities may rise. So, too, may interest in annuitising the value of the principal asset of most old people, at least in America, Britain and Australia: the family home. For years, insurance companies have tried in vain to popularise schemes to allow the old to secure a lifetime's income flow from their home. Now there is new interest. Britain's Prudential is launching a scheme, and the main financial regulatory body is considering whether to regulate reverse mortgages.

But the retired will still be cautious. Some may even prefer to rent out part of the house and secure an income stream in that old-fashioned way, rather than to risk handing over this emotionally charged asset to others, and forgoing the chance to bequeath it to their children.

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Under one roof

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Home, precious home

ONE of the first things that old people did when they grew richer was to move out of their children's homes. A book by Dora Costa on retirement in America records that in 1880 almost half of retired men lived with their children; in 1990 the proportion was only 5%. In fact, as home ownership has risen among older people, the trend in a number of countries has been the reverse: the adult children move in with mum and dad.

The relationship between parents, children and the parental home is one of the most emotive issues of retirement. The rise in house prices, says Martin Weale, director of Britain's National Institute of Economic and Social Research, is essentially a way of transferring resources from young to old. So for the young, sharing the home with the grandparents may be a good way to retrieve some of that transfer. A vivid example comes from South Africa. Esther Duflo of MIT looked at what happened to grandchildren there who shared a home with their grandmother after pensions for black people rose sharply in the early 1990s. She found that granddaughters (but not grandsons) grew taller. That suggested the grandmother was using part of her pension to pay for a better family diet. (However, she found no such effect when the grandfather shared the family home.)

The old rarely sell their homes or trade down to release money to live on in old age. Even when one partner dies or moves into a nursing home, the sale of the home is the exception, not the rule. So when an old person needs long-term care, governments (and families) face a quandary. Should the taxpayer carry the main burden of residential care if children who stand to inherit a fine property are unwilling or unable to look after their parents themselves? Or should the family be forced to exhaust the parental savings first before getting state help?

In France, children have a legal obligation to look after their parents, and the government theoretically has the power to recoup from an estate the value of care given to an old person. But such powers are not much used. Understandably, perhaps: when an OECD report on Iceland recommended that old people should exhaust their savings before the state paid for their care, the response was outrage. In the United States, the savings test has spawned an industry, just this side of fraud, to manipulate the ownership of the family home. Governments might find it easier to devise a system of compulsory insurance to pay for old people's nursing care than to tussle with a grieving family over the sale of granny's most valuable bequest.

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Don't go yet

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Why early retirement must get later

OLD age is better than the alternative—but not necessarily for the economy. Once people have stopped working, they need support. That, you might think, is a good reason to keep old people producing for as long as possible. In poor countries, that is exactly what happens. “Work is the pension of the poor,” says Robert Holzmann, director of social protection at the World Bank.

Elsewhere, people race out of the workforce at the earliest affordable opportunity. On average in the OECD, fewer than half of workers aged 55-64 are still employed. All too often, government policy encourages them to leave even before reaching the official pension age.

True, there has been a small rise in the proportion of American men over 65 in work. And middle-aged Americans often tell researchers that they plan to go on working after retirement. The AARP likes to quote a 1998 survey that found that 80% of baby-boomers wanted to go on working after reaching retirement age, at least part-time. But when they were asked at what age they wanted to stop working entirely for pay, the average was 59.7. And when asked at what age they expected to stop working for pay, the answer was 63.7—a little older than the age of 62 at which Americans can start to draw Social Security benefits. So the enthusiasm for continuing to work may not be strong.

Americans at least slog on longer than continental Europeans, who do not even pretend to an enthusiasm for paid employment. In France, says Monika Queisser, a pensions expert at the OECD, surveys find people claim to prefer early retirement to earning a higher pension. In Belgium, a man is typically retired for almost a quarter of his life, and works for less than half of it. Belgium is unusual, but not very. Only in Japan do the old regularly work on past the official retirement age. There, 75% of men aged between 60 and 64 are still in employment, compared with about 55% in America and Britain and a mere 20-40% in continental Europe.

Moreover, once out of the workforce, people rarely seem to return. A study by the OECD found that only 2.4% of people who retired in 1997 were in employment (full- or part-time) the following year, compared with 36% of the unemployed. Get out of the habit of working, it seems, and either employers do not want you, or you do not want to go back.

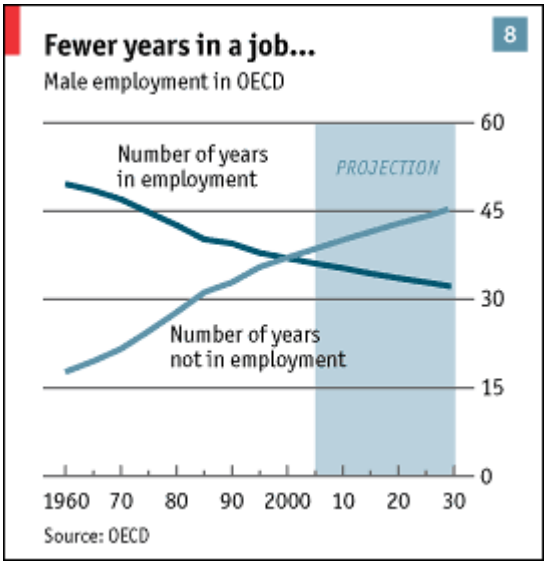
Some people, of course, can't bear to leave. In “The Hero's Farewell”, a book about the retirement of chief executives, Jeffrey Sonnenfeld of Yale University vividly describes the difficulty companies have in persuading the boss to retire—and, once off the board, to quit altogether. He discovered that 57% of chief executives retained an office at the firm for at least two years after retirement, compared with 23% of senior managers.

Roll model

The Select Committee on Economic Affairs of Britain's House of Lords, which produced a stimulating report on the economics of an ageing population last autumn, also defies the years. Its members' average age is now 68, raised by the presence of Lord Roll, author of a classic history of economic thought and a lively and inquisitive 96-year-old. Those who work in delightful surroundings with plenty of status and interest are often understandably eager to continue as long as they can.

But for many others, work is not much fun. Mr Willetts has a cartoon showing two straining galley slaves, muttering, “I'm so

glad we don't have to retire at 65." Some of this Tory MP's constituents work in factories or old folks' homes, and count the days until they can quit. Remember that the poorest and least-educated people tend also to have the lowest life expectancy and to be most disabled in old age. Few galley slaves enjoy Lord Roll's durability or his physical and mental agility.



At the same time, companies are often unenthusiastic about keeping on older workers. A recent article in the *Harvard Business Review*, trying to alert companies to the impact of an ageing workforce, complained that human-resource departments are often biased against older employees. In Britain, "Far more people feel discriminated against on grounds of age than of race or gender," argues Mr Willetts. In most countries, age discrimination goes underground, though not in Japan: Keio University's Mr Seike, a professor of labour economics, found that 80% of job advertisements in the main national newspapers set age limits.

Why the lack of enthusiasm for older workers? Certainly they become less good at performing tasks requiring physical strength: Ms Costa, in her book on retirement, points out that the average price of male slaves in the American South peaked when they were 35 years old. But there is remarkably little academic work on what happens to the productivity of older workers in jobs that require brainpower and experience rather than muscle. What there is suggests no obvious decline in performance, at least up to the age of 60. Workers who, like Mr Greenspan or Lord Roll, build on past experience, may remain good at their job far into old age. The problem with measurement, explains Paul Johnson of the London School of Economics, is that the employees whose productivity falls most steeply as they get older are also the ones most likely to drop out of work.

Older workers have lower rates of absenteeism and more experience than younger folk. But do the changing nature of employment and the pace of technological change reduce such advantages? They will do, if flexibility and mobility are what employers really want. However, in a new study of "The Economic Impacts of Population Ageing in Japan", Landis MacKellar and a group of co-authors put forward an ingenious counter-argument. Employers typically give older people less training than younger workers receive, because they assume that retirement will curtail the return they get on such investments. That may be a false assumption, given that older people are less likely to switch jobs than younger workers. But the upshot is that older workers will benefit when skills are quickly acquired and quickly eroded, because they can boost their productivity with "staccato episodes of short-term training". And once older workers master digital technologies, these too may offer an advantage. For the old, argue the authors with some hyperbole, "The move toward a knowledge-based economy may prove to be the greatest boon since the invention of eyeglasses."

Even without computer skills, old people are typically more costly to employ than younger ones. That is surely the main explanation for what appears to be age discrimination. Part of the problem is the convention of seniority pay: companies, so the argument runs, pay younger workers less than their productivity would justify and older workers more, in order to coax the young to stay longer and move up the pay scale. These days, the young may simply move on. Even in Japan, the rising curve of pay with age has grown less steep in the past two decades. Indeed, in the current wage round, large electronics companies such as Hitachi and Matsushita are trying to introduce wage scales that make hardly any allowance for seniority.

But the convention clings on in continental Europe too. Germany has more large companies with traditional seniority systems than any other European country, but Italy also wafts workers up the pay scale as they grow grey. "The curve of life income in Italy never goes down with age," complains Vaciago Giacomo, a professor at the Catholic University in Milan.

The impact of seniority pay is aggravated where companies must pay extra pension or health contributions on behalf of older staff. One British study found that men in their early 50s with an occupational pension and in the top quarter of the pay scale were 50% more likely to be sacked than a 50-year-old on the same pay but without an occupational pension. In America, employers generally pay higher health insurance for their older staff. John Rother, policy director for the AARP, argues that, for employers of older workers, health-insurance costs are a bigger issue than pensions.

And a formal retirement age can be useful to employers. Where labour laws are tough and unions

assertive, retirement is often the only way a company can unload surplus staff. That is certainly true in Germany and Japan. Even in Britain, which has to implement an EU directive banning formal retirement ages by the end of 2006, employers argue that older workers will suffer, because getting rid of them will become more brutal. Succession planning everywhere will become harder.

Down or out

The harsh truth is that older workers may have to accept lower pay if they are to remain employed. This is what happens in Japan, where the official retirement age at which part of the public pension is payable was raised from 60 to 61 in 2001, and increases to 62 this year. Companies typically retire workers at 60 and then hire about half of them back, often at 50-70% of their previous pay. Those who do not get rehired tend to move to a service job, such as caretaking or working as a security guard. An employee in his late 50s, with 30 years' service, might earn ¥489,000 ($4,430) a month at his old employers but only ¥229,000 in his new job. Workers who shift from a large firm to a smaller one may see an even bigger decline. It is a convenient way to get rid of excess workers, says Mr Seike. But it is also a way to buy experience at an affordable price.

What might persuade older workers to carry on working? Finland is trying a campaign to publicise their employability. However, the most likely answer everywhere is a change in the rules governing public pensions. In the late 1990s, two American economists, Jonathan Gruber and David Wise, embarked on a three-part study of the relationship between social-security programmes and retirement in 11 industrialised countries. They felt that the decline in older workers' participation in the job market was “perhaps the most dramatic feature of labour-force change over the past several decades”.

Their work, which has been followed up and developed by the OECD, drew attention to the differences between countries in the exodus from the job market between 1960 and 1996. At the start of the period, more than 70% of 60-64-year-old men were in work in all 11 countries, and more than 80% in some. By the mid-1990s, the rate had fallen below 20% in Belgium, Italy, France and the Netherlands, and to about 35% in Germany. In America the decline had been more modest: from 82% to 53%. Only in Japan did a large majority of older men continue to work: the decline was from 83% to 75%.

This exodus represents a considerable loss of productive capacity—caused largely, it seems, by the increasing generosity of state pensions. Two features are particularly important: the age at which social-security benefits become available, and the way benefits accrue if an older person continues to work. Governments, wrongly believing that they could create jobs for younger workers by driving older ones out of the job market, made it easier and easier to retire early.

However, the pattern of accrual is also important, Messrs Gruber and Wise established, and differs greatly from one country to another. The main factors that discourage older workers from toiling on are high pensions, relative to earnings; failure to uprate benefits on an actuarial formula to offset the fact that they are received for fewer years; and a continued requirement to pay social-security contributions past retirement age. All of these constitute an implicit tax on employment, which in some countries can reach almost 100%.

In addition, generous unemployment or disability plans, common in Europe, offer support for those who retire early. In Austria, for example, people aged over 55 are more likely to be on disability benefits than in any other country, whereas rates for Austrians aged under 50 are much lower than elsewhere.

Gradually, governments are realising that early retirement for the majority is a luxury they cannot afford. At their summit in Stockholm in 2001, the countries of the European Union set themselves a target (as they like to do) of raising labour-force participation by 55-64-year-olds from 25% to 50% by 2010. But they have not shown much enthusiasm for the measures suggested by Messrs Gruber and Wise. The authors' third volume on the subject, due out next year, looks at the potential savings if governments were to raise the age of entitlement to a state pension by three years. They found that national social-security bills would decline by between a quarter and a third.

What may be even more important is to ensure that entitlement to benefits for people who continue to work accrues on an actuarially fair basis. “In Germany,” reflects Mr Wise, “if you made the system actuarially fair and increased the retirement age by three years, that would just about do it.” A top-level commission recommended something along those lines last summer, but in the face of trade-union fury the government dropped its proposal to add two years to the retirement age by 2035. An improvement in the actuarial rate of accrual, started in 1997, seems already to have begun to raise by two years the age

at which Germans leave the formal job market. (In continental Europe, many of those who “retire” continue to work—but in the black economy.)

The trend to ever earlier retirement now seems to have levelled off in many countries. Benefits are no longer improving, and the service economy offers more of the sort of jobs older workers are likely to take. Joseph Quinn of Boston College argues that about half of all Americans retire in stages, taking what he calls “bridge” jobs on the way. These are often part-time or self-employed. They offer flexibility while cushioning the fall in income. Older workers may also be increasingly likely to start their own businesses which, some British evidence suggests, have a higher survival rate than those set up by younger people.

All this may benefit many older people. Stimulus and companionship seem to fend off disability, both mental and physical. But those approaching retirement will not thank governments for forcing them to forgo extra time with the grandchildren or postpone that lifetime cruise. And the poorest, who are likely to enjoy their pensions for the shortest period of time, will suffer most.

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Grey power

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Changing politics

PHILIPP MISSFELDER is a tall, earnest 24-year-old, head of the youth organisation of Germany's Christian Democrats (CDU). Last August, he gave an interview in which he said that the health system would change over the next 30 years. Old people were living off future generations, and would eventually have to carry more of the cost of their own medical treatment, including hip replacements.

“Before the interview, I was a normal student politician,” he says wistfully. In the five days after it was published, he received 80 death threats. The police took them seriously enough to put a guard on his flat, his office and his parents' home. Furious letters still pour into the office of the CDU youth organisation. But its membership has risen, by 3,000, for the first time in 20 years. Young members of rival parties, the Social Democrats and the Greens, have been in touch. “I think I have hit a nerve with my generation,” he says.

Lest it be thought that German old folk are particularly abusive, the CSIS's Mr Jackson has had a similar experience. A decade ago, he wrote a report on the excessive generosity of public-service pensions, and was deluged with nasty mail. The AARP too, having tentatively endorsed President George Bush's plans for health reform, has been engulfed by angry letters and telephone calls from its members. Britain's Mr Willetts recalls an adviser's words: “I can tell you how to reform your state benefits for pensioners, but I can't tell you how to win the election afterwards.”

Everywhere, the political forces supporting the privileges of the retired are powerful, relative to those of the young. “Young Italians believe the unions represent only their fathers,” says Giuliano Amato, a former prime minister of Italy. No wonder: half the members of Italian trade unions are retired. In local politics too, the retired are a potent force. When they home in on a town, they become a lobby for conservation rather than jobs, and health care rather than schools.

Against this muscle, the young are a feeble force. At first sight, that is surprising: after all, a large proportion of them have a common meeting point in universities. They also seem to be well aware of the threat to their own retirement incomes: a Gallup poll last autumn found that 24% of 18-29-year-old Americans thought they would get no benefits from Social Security when they retired. But the young make less use of their vote than the old. Michael Dimock of the Pew Research Centre in Washington, DC, recalls how, during his years as a college lecturer, he would point out the generational imbalance to his students. “They would say, ‘Boy, I should care about this'—and then forget when they walked out the door.”

Such indifference will make it harder for governments to undertake reform. Add in the rising proportion of older people living on the toil of the young and middle-aged, and you have an interesting question: should voting rights be somehow adjusted to take more account of the interests of the young? Should parents have votes on behalf of their young children? Should people with children have more votes than people without? Mr Weale of Britain's National Institute of Economic and Social Research recently asked whether there should be a maximum age for voting rights, on the grounds that the old may vote for higher pensions, whereas the young take a long-term view.

Crabbed age and youth

“We know much more securely than we know almost any other social or economic factor relating to the future that, in the place of the steady and indeed steeply rising level of population which we have experienced for a great number of decades, we shall be faced in a very short time with a stationary or declining level.” Thus John Maynard Keynes, Britain's famous economist, in 1937, less than a decade before the first baby-boomers were born.

Although Keynes's timing was poor, he got the trend right. In a growing number of countries, fertility is falling below replacement rate. Even if it recovers, zero growth seems the most likely long-term trend.

Living with that, and with rising life expectancy, will be difficult. Where births continue to decline, coaxing the old to continue to work will be only a partial answer. Joseph Chamie of the United Nations Population Division calculates that the Chinese could retain today's ratio of workers to old folk only by continuing to work past the country's average life expectancy.

Economies with shrinking workforces will grow more slowly or even contract, even if growth per worker continues to rise. The result will be a shift in global power: “old Europe”, as Donald Rumsfeld, America's defence secretary, called France and Germany, will lose ground against countries whose workforce is still expanding. Numbers do not inevitably mean power—India's 1 billion people live in an economy not much larger than Spain's— but the growth they facilitate will eventually have an effect. Today, 15% of the developed world's population is 65 or older; by 2050, that share will almost double. It is hard to imagine that such a change will not affect the global balance of power.

But countries can prepare for such a world. Some will find that easier than others. The CSIS, together with Watson Wyatt, a consultancy, has produced an “ageing vulnerability index”. France, Italy and Spain are most vulnerable to the rising costs of old age; Australia, America and Britain least. Governments need to explain what lies ahead, and persuade the retired and those nearing retirement that they too will have to make adjustments. No greater challenge in social policy faces politicians in the next couple of decades.

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Microsoft

Windows à la carte

Mar 25th 2004
From The Economist print edition

Might the European Commission's controversial new antidote to Microsoft's monopoly actually work?

HALF a billion euro? Forget about it. The headline-grabbing €497m ($612m) fine imposed by the European Commission on Microsoft this week is the least of the software giant's worries, for it makes that much profit every two weeks and is sitting on a cash pile nearly 100 times bigger. Far more worrying for Microsoft is the commission's demand that it produce, within 90 days, a version of its Windows operating system stripped of its media-playback capabilities. That sounds trivial, but it would set an important precedent that could be used to make Microsoft remove other bits from Windows in future. Hence Microsoft's recent strenuous efforts to negotiate a settlement to avoid this week's ruling, and its determination to have the ruling overturned on appeal. Allowing PC-makers to pick and choose which bits of Windows they want from an "à la carte" list of features is something Microsoft wants to avoid at all costs.

That is because Microsoft relies on the "bundling" of new features into Windows to protect its existing monopoly and to extend it into new areas. Windows is installed on over 90% of new PCs. So any feature Microsoft adds—a web browser, say, or a media player—quickly becomes ubiquitous. Rival products, such as Netscape's web browser or the RealNetworks media player, which must be installed separately, lose out. Microsoft crushed Netscape this way, and now the commission has ruled that Microsoft's "bundling" of its media player into Windows "is an example of a more general business model which deters innovation and reduces consumer choice in any technologies which Microsoft could conceivably take interest in and tie with Windows in the future."

The next version of Windows, codenamed Longhorn, due in 2006, will include search, database and security add-ons, and will no doubt inspire new legal challenges. By making Microsoft "unbundle" its media player when asked to do so by PC-makers, who can then substitute an alternative, the commission's aim is both to level the playing field today and pave the way for further unbundlings in future.

So great is Microsoft's desire to preserve its ability to bundle that, during settlement talks with the commission, it even offered to include rival media players in Windows, rather than remove its own. But

Mario Monti, Europe's competition commissioner, was less interested in winning yesterday's battles than in preventing tomorrow's misdeeds. Attempts to devise a voluntary set of rules to govern future unbundling failed, so Microsoft will now be legally compelled—subject to appeals—to unbundle its media player. This would constitute a big step towards an “à la carte” Windows. But would that actually work?

It might. If Microsoft's various add-ons were optional rather than compulsory parts of Windows, each one would have to compete on merit with rival alternatives. PC-makers could then differentiate themselves from each other by assembling different software bundles for specific markets. Indeed, to some extent, though it would never admit it, Microsoft has started down this path already: it sells several versions of Windows, including a basic version for home users, a more advanced “pro” version for business users, and specially modified versions for tablet computers, media centres and its Xbox games console. It also offers cut-down versions of Windows in some Asian markets.

Pick and choose

Strikingly, Microsoft also sells a version of Windows for use in “embedded” devices such as cash dispensers or supermarket tills. Firms that license this version of Windows can specify which features they want, or do not want. This undermines Microsoft's claim that Windows is a single product that stops working if any part is removed, says Dave Stewart, deputy general counsel for RealNetworks. It is notable, he says, that Microsoft lets licensees modify Windows in embedded markets where it is not dominant, but insists on bundling everything in markets where it is.

Yet there are several problems with the “à la carte” model. One difficulty, to continue with the restaurant analogy, lies in compiling the menu. It would be necessary to decide how to carve Windows up, and how much PC-makers ought to pay once they have decided which bits they want. So far, the commission has said merely that Microsoft should not be allowed to offer incentives to PC-makers to include its media player—in other words, the unbundled version must not cost more than the full version of Windows. Surely it should cost less.

Yet PC-makers might simply prefer to stick with the full version of Windows. Today they can do deals with Microsoft's rivals to add extra software to their PCs. Hewlett-Packard, for example, is to sell PCs with Apple's media-player software, and Dell ships RealNetworks' player on some of its computers. But in both cases, Microsoft's media player is still present. Why antagonise Microsoft by removing it, even if it were for a small cut in the price of Windows? Philip Lowe, the commission's director general of competition, notes that rival software firms already pay PC-makers to carry their software. In future, he says, they might insist that Microsoft's rival product be removed.

The scope of the commission's ruling is limited to the European market. But Thomas Vinje, a lawyer at Clifford Chance, which represented a consortium of Microsoft's opponents in the case, says that Europe is probably a big enough market to act as a laboratory in which to test the “à la carte” model. If it worked, PC-makers would probably be able to insist on the same terms worldwide. Hence the unease at Microsoft: if the commission's ruling is upheld on appeal and the unbundling of media player goes ahead, its current business model could start to unravel.

All this, of course, assumes that the remedy is not overturned. Microsoft says that it will appeal, and will also ask for the commission's remedies to be suspended while the appeal is underway. On past form, says John Kallaugher, an expert on comparative competition law at University College, London, and a partner at Latham & Watkins, a law firm, the decision on whether or not to suspend the remedies could come as early as June. The appeal itself would take several years, however. By then the media-player case may well have become moot, and Longhorn will probably have been released. But a ruling in the commission's favour could still shape future versions of Windows.

By rejecting Microsoft's offer to include rival media players in Windows, says Brad Smith, Microsoft's general counsel, the commission turned down an opportunity to “create a foundation to solve future issues”. Such an agreement, he says, would have demonstrated that future bundling disputes could be solved by negotiation, on a case-by-case basis. Of course, that would also leave Microsoft the option of spinning out negotiations indefinitely, to its own advantage. Recognising this, the commission has in effect taken a bold gamble, rejecting a solution to a specific problem now in the hope of establishing a general precedent for the future. If it can get its remedy to stick, there is an outside chance that it might be able to dent the mighty Microsoft monopoly.

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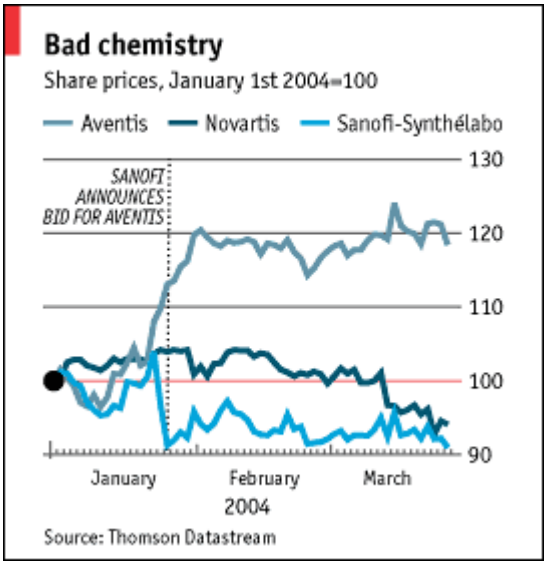
About sponsorship

Drug mergers

Patent nonsense

Mar 25th 2004
From The Economist print edition

The bizarre tale of three drug firms and the French prime minister



THERE is capitalism, and then there is France. The latest example of *l'exception française* is a contorted takeover battle involving two French drug firms. In January, Sanofi-Synthélabo launched a hostile €46 billion ($55 billion) bid for Aventis, a bigger rival. Aventis rejected the offer, setting the stage, it seemed, for a classic bidding contest. The market soon valued Aventis at €4 billion above the original bid and, as expected, a white knight appeared in the shape of Novartis, a Swiss drug firm.

Alas, foreigners who enter a French bidding battle require a good command of semaphore, to understand the coded signals that start to fly around. No sooner had Novartis, pressed by French financial regulators, admitted that it was exploring the feasibility of a counter bid, than in stepped Jean-Pierre Raffarin, France's prime minister. Last week, he said that any bid would have to serve the French national interest. One concern was the country's ability to counter bio-terrorism, which seems to require national ownership of a vaccine producer. (Never mind that even America buys defensive vaccines from France.) This bizarre intervention was widely seen as a signal to the Swiss to back off.

Strictly, Mr Raffarin has no legal standing at all in the matter. But this is France. For Novartis to bid in the face of government opposition could be hazardous. After all, the government pays most of the country's medical bills. Novartis said this week that it will go ahead only if the government approves, and Aventis agrees to be bought. Don't hold your breath.

Still, to give Mr Raffarin pause for thought, Daniel Vasella, the boss of Novartis, also boldly set out this week his case for buying Aventis, pointing out that Novartis and Aventis have complementary drugs in important areas such as cardiovascular disease, diabetes and cancer.

Both firms are products of a previous round of European drug mergers. Novartis emerged from two Swiss firms, Sandoz and Ciba-Geigy, while Aventis is a combination of the drug businesses of France's Rhone-Poulenc and Germany's Hoechst. Since those pairings, however, the stakes have risen with the formation of Glaxo-SmithKline (from the merger of Glaxo Wellcome and SmithKlineBeecham), which created the world's second-biggest firm, behind America's Pfizer. A Novartis-Aventis pairing would surpass GSK in size.

In pharma, the trigger for such rounds of consolidation is usually worry about a weakening product portfolio, as drugs approach the end of their patent life. Sanofi faces an accelerated form of this risk. Its main product—generating one-third of revenues—is a blood-thinning drug, Plavix. All being well, its patent will last until 2011. But it is being challenged in American courts, and there is every chance it will be struck down. That may be why the firm is so keen to diversify by acquiring Aventis.

As for the prime minister, he is not only telling Novartis to clear off, but also telling Aventis that it should stop resisting the Sanofi bid. So there you have it: a company with problems should be free to take over a bigger, stronger rival, and no foreigner should be allowed to intervene. *C'est peut-être bien du capitalisme, Jim, mais pas tel que nous le connaissons*.

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South African pharmaceuticals

Me too

Mar 25th 2004 | PORT ELIZABETH
From The Economist print edition

Welcome new investment in the generic drug industry

GONE are the days of a simple pestle and mortar. A new drug-making factory in Port Elizabeth will open in May, complete with air-locks, depressurised rooms, double-thickness windows, pipes of purified water and gleaming machinery. Built for 150m rand ($23m), and matching European Union standards, it will be capable of doubling the annual output of Aspen Pharmacare to more than 5 billion tablets, mostly generics. Aspen, already Africa's largest drug manufacturer, is growing. On March 10th it announced the 270m rand purchase of Fine Chemicals, a firm that makes the raw materials of many medicines in tablet form.

South Africa's drug industry can expect further growth from its current 20 billion rand in annual sales. Adcock Ingram, a rival, recently announced a joint-venture with India's largest drugmaker, Ranbaxy Laboratories. Called Thembalami, the new firm will make 13 types of generic medicine, if approved by the Medicines Control Council and patent-holders.

Two factors are behind the growth of generics. The South African government wants prices of branded drugs slashed by as much as 50% by May, and is pushing the wider use of cheaper generics. Some multinational firms, such as Boehringer Ingelheim, this week threatened to cancel new investment in South Africa if sharp price cuts on branded products go ahead.

Second, and as important, is the demand for anti-AIDS drugs. South Africa is gripped by the world's largest AIDS epidemic: an estimated 5m people, some 11% of the population, are infected with HIV. The government said in November that anti-retroviral drugs, which do not cure the disease but can prolong a patient's life, will be given free in state hospitals and clinics. Perhaps 1.7m South Africans need such treatment. A typical dose of three types of medicine—five pills—is needed each day.

South Africa's government is painfully slow at implementing its decision. Only two of nine provinces have programmes to provide the pills. The health minister, Manto Tshabalala-Msimang, is notoriously sceptical about their usefulness. Her scepticism, and a genuine concern that drugs should be distributed safely, are delaying provision. Some 40 firms, including Aspen and Adcock Ingram, that bid to supply cheap generic anti-retrovirals to state hospitals, must now wait until June (not March, as planned) for a decision.

Aspen is likely to win a large tender. It holds “voluntary licences” from drug multinationals Bristol-Myers Squibb, GlaxoSmithKline and Boehringer Ingelheim to make generic versions of their anti-retrovirals. In October it won a contract from the foundation of former American president Bill Clinton to supply the drugs to charities and governments in other parts of Africa and in the Caribbean. Last August it launched Stavudine, the first anti-retroviral to be produced in Africa.

Sales in the rest of Africa are also likely. Exports of generic AIDS drugs are no longer banned (for least-developed countries) by international trade laws. Aspen estimates that 4m Africans now need the drugs, but fewer than 100,000 get them. Many African countries say that anti-retrovirals will be given free in state hospitals.

So the new facility in Port Elizabeth will be in demand. But what of profits? No drug firm dares to say that the AIDS epidemic could be lucrative. A spokeswoman for Adcock Ingram talks piously of making drugs to serve South Africa's “general economic health”. There will just be “razor-edge” profits, she says. The price of a basic daily anti-retroviral dose for one patient is now under $1; the Clinton Foundation will provide it for less than 40 cents.

Aspen's boss, Stephen Saad, is more frank: “Anti-retroviral production helps to absorb costs; the greater volumes make expansion easier and cost-effective”. As Aspen's total output grows, thanks to AIDS drugs, there are economies of scale. For example its antibiotics should be cheaper to produce in the new factory.

Indeed, given the volumes of pills needed, Mr Saad sees a chance for South Africa to develop a serious chemicals industry. Around 70% of the cost of making a typical pill is the ingredients. Owning Fine Chemicals gives Aspen more control of its production chain. As capacity to make generics grows, and as foreign patents on anti-retrovirals expire (many of those licensed to Aspen end in 2005-2012) there will be a chance to export to rich markets. An example, as the saying goes, of doing well by doing good.

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The business of homeland security

Secure profits

Mar 25th 2004 | LOS ANGELES
From The Economist print edition

California's latest high-tech boom

Get article background

“IT IS a renaissance for the economy of southern California,” says John Osborne of Clearstone Venture Partners. “I believe it with all my heart.” Indeed so, and Mr Osborne is hardly alone in connecting America's “war on terror” with an upturn in California's business fortunes. With the Department of Homeland Security planning to spend around $60 billion over the next two years on everything from safer airports to a nationwide network of “biosurveillance sensors”, there are opportunities galore for the private sector. That is why, on March 15th, General Electric paid $900m for InVision, a 1,000-employee firm based in Newark, California. On March 10th, Britain's Smiths Group paid $15m for Cyrano Sciences, a seven-year-old Pasadena firm which, like InVision, specialises in bomb detection. As venture capitalists and investment bankers hover, more deals are in the offing. “Thanks to Osama bin Laden, the sector's booming,” enthuses one entrepreneur.

Just in time, many would add. After all, the traditional centres of Californian high-tech are still feeling the blows of the past decade: in the early 1990s, the defence and aerospace industries around Los Angeles and San Diego were knocked back into recession by the ending of the cold war; then, in 2000, the Bay Area was hit by the bursting of the dotcom bubble.

Before the September 11th 2001 terrorist attacks, the focus of America's security industry was the relatively low-tech task of guarding homes and offices; now it is an increasingly high-tech business embracing everything from biometrics to chemical sensing. InVision, for example, uses X-ray diffraction and magnetic sensing to detect explosives and drugs; Cyrano has developed miniature sensors that can act as an “electronic nose” to sniff out chemical and biological agents. ImageWare Systems, based in San Diego, boasts “secure credential and biometric product lines” for driving licences and passports.

None of this success is really surprising. The digital evolution of the security sector plays to California's strengths: a tradition of scientific excellence in its universities and the ability to turn academic discovery into commercial achievement. Silicon Valley is the offspring of Berkeley and Stanford universities; the biotech and wireless communications clusters in San Diego can be traced back to the University of California at San Diego; the defence industry is linked to the California Institute of Technology (CalTech) in Pasadena. Moreover, one happy outcome of the cutbacks in the aerospace, defence and information-technology sectors is a ready supply of brainy people to work on homeland security.

Indeed, given that California produces almost a fifth of the nation's high-tech goods and services, accounts for more than half of America's biotech jobs and is the main centre for the country's aerospace and defence industries, it was logical enough that last November the Department of Homeland Security chose the University of Southern California, Los Angeles, for its first “centre of excellence”. This will try to analyse all risks, including economic, to the country's security, be they terrorist bombs and poisoned water or forest fires and stockmarket crashes.

Arguably, all this spending is excessive Star Wars-like extravagance at the taxpayer's expense. But it is hard to make that case when America's ports, airports, dams and rivers are so obviously vulnerable to terrorism. Now, only one in 20 of the containers entering America's ports is inspected, and few are kept under surveillance after clearing customs. That should mean a huge new market for radio-frequency identification (RFID) tags, sensors that could be attached to each container to track its position, and for better imaging devices to see inside the container. USBX, a Santa Monica investment bank, reckons that sales of bomb-screening devices and metal detectors are set to grow by nearly a third annually.

Another intriguing opportunity is in biometrics—identification by unique physical characteristics such as fingerprints, iris scans or facial features. For all the long-term hopes of profit from tackling identity theft, the current boom is largely due to the American government's demand to know more about those visiting the country. From October 26th, some visitors who do not require visas to enter America will have to carry passports with embedded biometric chips. Already, passengers entering from abroad with a visa through, for example, Kennedy airport in New York are photographed and fingerprinted.

As all 19 of the September 11th hijackers had American Social Security numbers—six of them fraudulently obtained—you can see the government's point. But there is a downside. In “Minority Report”, Steven Spielberg's futuristic thriller, advertising hoardings recognise and speak directly to a fugitive Tom Cruise. Mr Spielberg got the idea from a visit to Neven Vision, a Santa Monica firm that has developed software to recognise faces even when moving. That may help in many contexts, from checking a traveller's identity to seeing if a car-driver is falling asleep. Nevertheless, there is also something creepy about this. Remember: Big Brother is watching you.

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Business in Japan

From Head & Shoulders to Kobe

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Promoting a city is like selling shampoo

“AFFIRMATIVE action for foreign companies,” is how Masaaki Akagi, an official in Hyogo prefecture, describes the local government's drive to attract foreign direct investment. Since such open arms are rare in Japan, the foreigner-friendly attitude of Hyogo and of its capital, Kobe, are giving it an edge in the eyes of overseas investors. Despite being 600km from Tokyo, multinationals such as Procter & Gamble (P&G), Nestlé and Eli Lilly have put their Japanese headquarters here.

Yet, even in Kobe, Japan's bureaucrats are far from the cutting edge when it comes to understanding foreign investors. So, two years ago, P&G, a consumer-goods giant famed for its salesmanship, decided to help them with marketing.

Attracted by Kobe's openness and infrastructure, P&G moved its Japanese headquarters there from Osaka in 1993, two years before a violent earthquake hit the city. Werner Geissler, who now runs the firm in north-east Asia, says that it had tried for years to help “Hyogo-Kobe” attract more overseas firms. P&G had several goals in doing this. It wanted to boost its image locally, to spur the local economy and sales, and to attract other foreign firms who could help support expatriate-friendly schools and other infrastructure. Some 20% of P&G's Kobe staff is expatriate. But until two years ago, P&G's efforts were proving in vain. At most meetings between firms and officials, says Mr Geissler, it was “always the same people, same talk, same food... Nothing happened and nobody was happy.”

So he decided to make members of P&G's brand, marketing and public-relations teams available to local officials. One predictable result was better presentation: a slick video featuring Hyogo's governor, and a glossy new look for local-government brochures.

P&G also lent Hyogo-Kobe its “consumer is boss” slogan—but with a twist. Local officials now go around repeating that the “investor is boss”. To put this into practice, the P&G people showed locals how to look at their “product” from an investor's point of view. One Kobe official, for example, says that the idea of showing potential investors a map of all available land in the city—rather than just government property—was a revelation. The locals also borrowed another P&G tag line: “the second moment of truth”. Instead of forgetting about new arrivals once they set up shop, the bureaucrats now help them settle in. Happy customers make good ambassadors to other potential investors. And local officials now accept that Kobe is not a household name in western boardrooms (they took some persuading).

P&G and local officials have devised different strategies for different market segments. One strategy might be likened to selling hair conditioner to a rival shampoo's loyal customers. Officials have targeted foreign firms with a headquarters in Tokyo, suggesting that they put additional offices and research centres in Kobe. The city has also stressed its distance from Tokyo and its response to the 1995 quake. As its buildings are now able to withstand a severe earthquake, many financial institutions—including AIG, a huge insurer—have put emergency back-up facilities in Kobe.

Officials also plan a pitch to potential foreign investors who already have a connection to the area. Mr Akagi hopes to track down senior executives who have studied or worked in Kobe, and Kobe natives who have moved away and married international executives. Foreign investment may not be toothpaste, but it cannot hurt to look for repeat customers.

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Video games

Gaming goes to Hollywood

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The games business is becoming more like Hollywood, but differences remain

THE latest James Bond adventure (see picture) is at number one, “Finding Nemo” at number 12, and “The Lord of the Rings” at number 18. A chart of DVD sales or box-office receipts? No, this is last week's British video-games chart, a vivid illustration of how the once-separate worlds of movies and games have become increasingly intertwined. Film actors, even famous ones, now voice their characters in games too. Animators, artists and model-makers move freely between the two worlds; the same companies produce trailers both for games and for films. People in the booming games business are fond of pointing out that worldwide games sales, at around $20 billion a year, now exceed movie box-office revenues. With every passing day, gaming seems less like Hollywood's poor relation.

The convergence between films and games makes sense for many reasons. Both special-effects-laden blockbusters and shoot-'em-ups rely on computer power, and as games consoles become more capable their output becomes ever more cinematic. Indeed, modern games based on “Star Wars” look even better than the original films, since today's games consoles far outperform any special-effects technology available back in the 1980s. Costs have increased as the production values of games have improved: the typical budget is now $5m-8m.

Where tie-in games used to be an afterthought, they are now integrated into the film-making process from the start, says Robert Kotick, the boss of Hollywood-based Activision, the second-largest games publisher. “Studios used to regard game licensees like the T-shirt licensees,” he says, and only provide access to artwork late in the film-making process. But no longer. His firm has a dozen people inside the studios of DreamWorks working on the game of “Shrek 2”, an animated film scheduled for release in May.

Creativity killer

The worry, however, is that gaming is also becoming Hollywood-like in a less desirable sense. Nick Gibson of Games Investor, a consultancy, notes that as costs rise, risk-averse games publishers regard film franchises as a safe bet. But as movie tie-ins and sequels proliferate, there is concern that creativity is suffering. “We are seeing less and less innovation, because the stakes are so high,” says Scott Orr, a former executive at Electronic Arts, the biggest games publisher. He founded Sorrent, a firm that makes games for mobile phones. With their small screens and limited processing power, mobile phones are a throwback to the 1980s, when a lone programmer toiling over a computer could cook up a hit game in a

few weeks. “It allows us to innovate again,” says Mr Orr.

It is also getting harder for independent developers to secure publishing deals, particularly as the big publishers take more development in-house. But, says Mr Gibson, small developers can still do well if their games are of sufficient quality. A good example is Pivotal, a British company based in a converted barn near Bath, and maker of a series of hit military games.

For his part, Mr Kotick insists that the growing scale and maturity of the games industry is not stifling creativity. Indeed, he says, it is important not to take the comparison with Hollywood too far. He moved his company from San Francisco to Hollywood in 1992, expecting to be able to exploit synergies between the two industries, but found that proximity to Hollywood was of limited value.

For despite the convergence between games and films, the games industry is still different in a number of important respects. For instance, game-making is iterative: it is possible to market-test a game and then modify it, and to do so repeatedly during the game's development cycle—something that is not really possible with a film. That makes the games business far more predictable, and accounts for its far higher returns. Activision's game “True Crime”, for example, released last November, raked in $100m in its first month. Only two films released that month earned as much, says Mr Kotick, and they cost far more to make.

Another notable difference, says Mr Gibson, is that in the games world, sequels often outsell the original game—something that is very unusual in the movie business. That is because, while the plots and jokes of movie sequels are mostly thinner than the original, there is scope to improve on a successful game with technological enhancements (such as better graphics) and features such as new weapons, vehicles or character abilities. These ensure that many game sequels are better than the original. As a result, gaming concepts and brands are extremely valuable.

Much has been made of the trend to sell the movie rights to popular games. The best known example is “Tomb Raider”, though the most recent game in the series, and the second of two films based on the franchise, were flops. But even though the film rights to many games have been sold—most recently, those to “Prince of Persia” and “Soul Calibur”—the main trend will continue to be to make games from films, not vice versa. Indeed, says Mr Kotick, publishers are starting to think twice about selling the rights to their games, since a bad film adaptation—over which the game publisher has little control—can tarnish a lucrative game franchise. There could turn out to be limits to the cosiness between the two industries after all.

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Face value

A Monster success

Mar 25th 2004
From The Economist print edition

How Jeff Taylor changed the way the labour market works

THE words “jobless recovery” irk Jeff Taylor. Scrunching himself into his chair, his long legs and enormous feet tucked up under him, he lists all the evidence that the American economy, at least, is at last creating jobs again. January and February were better months for the world's biggest online job-search site, Monster.com, which Mr Taylor launched ten years ago this April.

Sales jobs, always in Monster's top five, both by postings of job-seekers' résumés and by prospective employers' searches, are now the top category, after picking up gradually over the past year along with American consumer confidence. Accounting and finance jobs are now the second category, thanks to stronger demand from companies in the wake of Enron, WorldCom and other corporate frauds. More tellingly, entry-level jobs began to pick up last autumn. And jobs in information technology were 16% higher in February than a year earlier.

Mr Taylor is also relentlessly cheerful about the long-term prospects of the job market—at least from the employee's point of view. “By 2010 we will see the worst labour shortages in our lifetime,” he says happily. “As 70m baby-boomers go and only 35m entry-level workers come on to the market in the next 15 years, the economy won't suffer skill shortages; it will suffer body shortages.” And demand will grow for “knowledge workers”, and for people to fill new management posts with such ghastly-yet-fashionable names as “chief learning officer” and “chief knowledge officer”. Offshore workers may ease the shortage. But there will be opportunities galore, he clearly thinks, for folk who trawl Monster's vast electronic “help wanted” pages.

Quite so. And as one of the dotcom boom's great survivors, Monster shows how electronic marketplaces can offer a reach and efficiency that physical markets cannot rival. It also shows that money can be made in such markets: Monster has been profitable now for 22 successive quarters.

Monster was one of the first dotcoms to be launched. But, unlike many dotcom entrepreneurs, Mr Taylor already knew the business he was entering. He came to online recruitment from the offline sort, having set up an agency, Adion, in 1989, not long after leaving the University of Massachusetts—where he managed to spend five and a half years without collecting a degree. He seems to have used the time to develop other talents and interests, including becoming a successful disc jockey in Boston's night clubs and building a vast collection of dance music.

Like Britain's Richard Branson, he has since used that student flair to instil a sense of youthful fun and anti-establishment zest in what is basically a boring business. Like Mr Branson, he easily makes an audience love him: some years ago, he persuaded attendees at a conference organised by America's Department of Labour to yell “We rock!” at every mention in his speech of human resources, and “To the Batmobile!” at every mention of the new economy. Mr Branson goes ballooning; Mr Taylor water-skis behind blimps. Mr Branson's success is built on the ubiquitous Virgin brand; when, in 1995, Adion was bought by TMP Worldwide, an advertising group, Mr Taylor insisted on keeping the Monster.com name. It is, he says, the firm's “single most important success factor”. Supporting the brand is a big advertising budget, accounting for a quarter of the firm's costs and including, since 1999, expensive ads during the Super Bowl.

Like another great online success, eBay, Monster has flourished thanks to a mixture of scale and free content. The company claims to have a 50% share of its online segment, ahead of its two main rivals, HotJobs (owned by Yahoo!) and CareerBuilder (owned by three big newspaper groups). Job-seekers work for long hours to supply eye-catching résumés, whereas employers pay to scan them or to post help-wanted ads. The scanning accounts for 32% of Monster.com's revenues, the posting for 53%. Most of the services that job-seekers get are free, but Mr Taylor hopes they will pay to join a new service that he has just launched to allow them to contact each other for advice, mentoring and career management. He hopes that they will ask each other questions about, say, what it is like to work for a firm that a job-seeker is thinking of joining, or what it is like to work as a nurse in a large teaching hospital in another part of the country.

But the main contribution of Monster has been to speed up hiring and vastly increase the accuracy of the job-search process. “You can post a job at 2pm and get your first response at 2.01,” Mr Taylor boasts. And an employer who knows exactly what he wants can use Monster's filters to search vast numbers of résumés with pinpoint accuracy. Just as the rise of online travel sites has devastated traditional travel agents, Monster, with its low costs and wide reach, has eaten the lunch of old-economy market intermediaries. Monster is posing a serious threat to newspapers, which historically made 40% of their revenues from carrying ads, up to half of which were for staff. Headhunting firms have also suffered, as demand has slumped for their help in filling lower-level jobs at client firms.

Kiss me, I'm a frog

But not every job can be filled online. This is a mass-market enterprise: top people still seem to need to be wooed in person, so there will be some work left for headhunters. And, though the online job market works well for workers and employers who know what they want, it works badly for the vague or tentative. If your résumé says clearly that you want to be a pool cleaner or an aerospace technician, the filters will ensure that it reaches the right human-resource departments. If it is unclear, they will confine you to electronic darkness. The old saying amonghuman-resources folk was that “you kiss a lot of frogs before you find your prince,” says Mr Taylor. On the internet, you kiss fewer, but only those frogs who really know what they want will find themselves on the end of their princess's puckered lips.

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Airlines under siege

Silver linings, darkening clouds

Mar 25th 2004
From The Economist print edition

Getty Images

Don't be fooled by rising travel numbers—airlines, especially big American ones, remain in deep trouble

Get article background

TERRORIST attacks in Madrid spelled bad news for the airline industry, especially for America's big carriers that have seen a gradual pick-up of business on their normally lucrative transatlantic routes. Indeed, prior to the latest attacks, the industry's outlook had seemed beguilingly upbeat. In the coming months there will be plenty of news about airlines recovering: this week, for instance, Virgin Atlantic unveiled big expansion plans.

Financial markets have been anticipating this bounty. Already this year the share price of American Airlines' parent company, AMR, at one point had climbed by one-third, while that of British Airways (BA) rose by over a third as its profits recovered faster than predicted, up by £100m ($170m) in its third quarter to £125m. Analysts are forecasting that BA will finish the year to the end of March with profits of around £600m, close to the record level of 1996. Last year the share prices of the big American network carriers jumped by 61% (admittedly from the sub-basement), as investors scented recovery (airline share prices have since retreated on concerns about terrorism and the oil price, though by much less than their previous gains—see chart below).

Behind the new mood of optimism lie signs of a revival in air travel and big cuts in costs. Most of the six-biggest American network carriers (American, United, Delta, Continental, US Airways and Northwest) negotiated new wage concessions last summer with their perennially tough unions. Carriers in America saw revenues growing by 5% in the fourth quarter, and forecasters are predicting good numbers this spring. After losing $7.4 billion in 2002, the six-biggest American carriers were in the red by a slightly less awful $5.3 billion last year. This year some of them might even make a small profit, unless they are scuppered by pension liabilities.

Giovanni Bisignani, director-general of the International Air Transport Association (IATA), is forecasting a $2.4 billion profit for the industry worldwide, after losses totalling $30 billion since 2000. After a drop of 2.4% last year, caused by the SARS epidemic and war, IATA expects global passenger traffic to rise by 7% this year, with cargo (which can make a big difference to airline results) growing by 5%.

But these rising travel and revenue figures merely reflect a belated, feeble recovery from the trough. Even if the travel numbers are climbing back, the airlines have to offer big discounts to fill seats, so their profits are still weak. And the underlying health of American carriers, in particular, is poor. United Airlines is hoping to get out of Chapter 11 bankruptcy some time this summer. It can do so only if it persuades the Air Transportation Stabilisation Board (the body formed to dole out subsidies to airlines after the September 11th terrorist attacks) to guarantee $1.6 billion of its debt. When United sought such a guarantee 15 months ago, the board turned the airline down because it thought United's business plan was unworkable. Chapter 11 bankruptcy was the result. Few observers will be surprised if United stays there.

Meanwhile US Airways, which emerged from Chapter 11 last spring, is struggling, with an operating loss of $251m in the fourth quarter, compared with the small $44m profit it had forecast in its recovery plan. It will probably have to sell off some assets, even some routes, to comply with the terms of its $900m bailout, which require it to have about $1 billion in free cash by the end of June.

In Europe the recovery of BA is still the exception. Lufthansa plunged into a €€980m ($1.2 billion) loss, hit by problems in its non-core airline-catering and travel businesses. Although Air France has won regulatory permission to merge with KLM, it will have its work cut out to stem losses at its Dutch operations, as well as overcoming the normal run of post-merger problems. No wonder Air France's partial privatisation has been postponed, yet again.

Nor can Air France yet welcome Alitalia into its grand alliance, because the Italian carrier is still in chaos. Its chief executive resigned recently after unions refused to accept job and salary cuts; Alitalia made an operating loss of more than €400m last year, its fifth year of losses in a row. BA is trying to stop it receiving further state aid. SAS also had an operating loss last year, and even fast-recovering Iberia saw its profits slide.

In Asia carriers such as Cathay Pacific, Singapore Airlines and Thai Airways are all bouncing back rapidly from the SARS epidemic which halved traffic last spring. But Japan Airlines is still losing money as ever. New low-cost carriers led by AirAsia, which is about to float to fund further expansion, pose a growing challenge to the region's network carriers. They have long believed that the longer distances involved in most Asian travel would immunise them from the threat of budget carriers, but that has now been shown to be nonsense. In response, many are setting up their own budget subsidiaries, but that is a recipe that has failed before in both Europe and America (though United and Delta are trying again).

Deluded optimists

Network airlines everywhere face the same challenge. They were designed for an age of regulation and state ownership that is passing. Competition from budget airlines is the biggest manifestation of this change, while creeping international de-regulation and new planes, big and small, that can fly longer distances direct are undermining the dominance of the traditional hub-and-spoke network in many regions. Meanwhile, on-line booking has made fares more transparent—and lower.

The challenge is greatest and most urgent in America, where there is little prospect of the network carriers making a decent financial return over the full business cycle. The period 1995-2000 did produce a rare run of big profits, which American carriers dissipated in daft efforts to boost their shares by buying them with their windfall. This boom was generated only by gouging business travellers at peak travel times, building up enormous consumer resentment. Small wonder that when the economy started to falter in early 2001, with the bursting of the dotcom bubble, companies saw bloated travel costs as an obvious target for cuts. Executives were told to travel less and move into economy class.

The traditional network carriers are not just grappling with a cyclical slump aggravated by the external shocks of the past three years. Some observers take the view that the basic business model of the network carriers is broken, and that they will have to reinvent themselves or go out of business, despite the stream of subsidies emanating from the federal government

Flying lessons

Top ten airlines by:

market cap, $bn Mar 23rd 2004		revenue-passenger-kilometres, bn, 2003*	
Southwest Airlines	10.5	American Airlines	193.2
Singapore Airlines	7.6	United Airlines	167.2
Cathay Pacific Airways	6.7	Delta Airlines	158.9
Japan Airlines	6.2	Northwest Airlines	110.2
Lufthansa	6.0	Japan Airlines	104.8†
British Airways	5.2	British Airways	101.1
All Nippon Airways	5.1	Air France	100.5
Qantas Airways	4.7	Lufthansa	93.0
Ryanair	4.0	Southwest Airlines	77.2
Air France	3.7	Qantas Airways	76.9

*Airlines with available data only †2002

Sources: FactSet; company statistics

Budget airlines such as Southwest, AirTran and JetBlue enjoy about a 30% cost advantage. If the comparison is adjusted for the fact that budget airlines do shorter (ie, proportionately more costly to operate) routes, some think the budget carriers' costs, measured on a comparable basis, would be as low as half those of traditional airlines. Nor is a non-unionised workforce the budget airlines' only advantage. In a recent study of American and European airlines, Booz Allen Hamilton pointed out that about two-thirds of their cost advantage comes from having superior, more economical business processes such as selling seats over the internet or flying their aircraft more hours each day.

The network carriers have cut about 20% of their capacity since things started to go awry nearly three years ago. But much of that consisted of just parking aircraft on the ground, saving on fuel and landing fees but still leaving the airline with the heavy cost of leases or repayments.

Now the competition between network carriers and low-cost airlines is intensifying on several continents. In America, Southwest Airlines is mounting an attack on US Airways' main hub at Philadelphia, which brings in almost one-fifth of its revenues. Given that Southwest's operating costs are barely two-thirds of the network carrier, it should be able to make big inroads. Another low-cost carrier, JetBlue, has already penetrated many markets in north-eastern states, the home market of US Airways.

Nor is it only US Airways that faces such competition: four out of every five airline markets (ie, the area served by a pair of airports) now feature a budget carrier as well as a network airline. The share of air travel enjoyed by budget airlines is fast approaching one-third, and many think it will be half of all domestic air travel within five years. More than two decades ago, deregulation sparked a similar wave of low-cost competition, but the big carriers fought back with their hub-and-spoke route systems and domination of major airports, and prevailed. This time they may not be so fortunate.

Bigger budgets

The European market is going the same way, and it is all happening much faster, since deregulation only arrived fully in 1997. Budget carriers such as easyJet, Ryanair and over a dozen smaller start-ups still account for less than a fifth of European air travel, but most analysts expect their market share to grow rapidly. This year the budget airlines will carry more than 50m passengers around Europe. In the past couple of months another six budget airlines got off the ground in Britain, Ireland, Hungary, Germany and Poland.

While the full-service carriers are struggling to get back to the traffic levels they enjoyed in 2000, the budget airlines are growing by more than 10% a year and little is getting in their way. True, Ryanair has withdrawn its London service to Charleroi in Belgium. But that was in a fit of pique after the European Commission slapped it on the wrist for a sweetheart deal in which the airport paid much of Ryanair's costs. In fact, as a big rise in Ryanair's share price demonstrated, the ruling was far milder than many had expected—Ryanair had to repay only one-quarter of the €15m of subsidies it had received from Charleroi, and the commission simply demanded that future deals be more transparent, last for no more than five years, and be open to all. That will do little to stop hungry, secondary airports from continuing to offer subsidies to budget airlines in an effort to lure tourists to their areas.

The biggest difference between budget carriers and mainstream airlines is their radically different way of working. Traditional airlines run networks, based around hubs, while low-cost airlines offer simple point-to-point services, with no provision for transfers and no frills such as lounges and free food and drink. The value of hubs (whether the big domestic ones in America or international ones such as London's Heathrow, Paris's Charles de Gaulle or Singapore's Changi) is that they minimise the risk to an airline's revenue. They do this by sucking in passengers from a variety of cities (including many small ones, in America) to fill up a given flight, by offering a wide range of destinations via the hub.

But to make this work, airlines tend to have their planes sitting around on the ground for a long time to make the connections. The same thing goes for flight crews, and there are extra ground staff hanging around as well.

Budget airlines running point-to-point services fill their planes by making the ticket so cheap it expands demand, even for a new destination, while their simple route model means that aircraft fly more hours each day. The no-frills service makes it possible to clean up and turn round a plane in about 25 minutes, compared with the hour-and-a-half or more it takes to turn round a jumbo jet.

Flattery by imitation

Network carriers have already learned some tricks from budget rivals, such as selling flights over the internet and doing away with printed tickets. They have also copied with some success the variable pricing used so brilliantly by budget airlines to fill seats at times of low demand.

American carriers have also altered their schedules, going for rolling waves of connecting flights rather than holding planes on the ground in anticipation of any particular connection. The aim is to get more flying hours out of each plane and its crew. In Europe the most striking changes have been those at BA, where about 14,000 jobs have been cut as the airline abandoned Gatwick, south of London, as an international hub. BA has also cut flight frequencies and chopped less-profitable routes in an attempt to eliminate the £300m it was losing on its short-haul European network: its latest profit figures suggest this plan has largely succeeded.

New aircraft technology is also forcing hub airlines to change, both posing extra challenges and offering potential solutions. The fact that the latest versions of single-aisle jets, such as the Boeing 737-800, have much longer ranges than those of 10 years ago means that budget airlines, which usually opt for a fleet using only one type of aircraft, can now contemplate some long-haul routes as well as the usual shorter ones. JetBlue led the trend when it started up several years ago with services from New York to America's West Coast. Some bosses, such as Ray Webster, chief executive of easyJet, think it is only a matter of time before an entrepreneur launches a budget transatlantic service with a few frills (but at a price) to ease the pain of the longer trip. Apart from lowering costs and fares, budget airlines have unbundled the old air-travel experience: now, if you want food and drink, you pay, and the airline pockets a healthy profit for every such transaction.

Another technical development, however, actually helps network carriers. The development of smaller 100-seater regional jets, made by Brazil's Embraer or Canada's Bombardier, is allowing the American carriers to reshape their networks by substituting smaller planes where the traffic does not always justify using a Boeing 737. Although the cost per seat is higher than that of a bigger plane, it takes fewer passengers to fill the seats and the overall trip cost is lower. Until recently, pilots at the big American carriers always resisted the encroachment of these cheaper aircraft flown by pilots who traditionally earn lower salaries.

There are also smaller models of regional jets coming along from the two manufacturers that could even serve to by-pass hubs. These 40-50-seat jets are now providing seat/mile costs that come closer than ever to those of bigger aircraft. That raises the possibility of an explosion of low-volume, point-to-point services.

Management consultants such as McKinsey and Booz Allen Hamilton have been poring over the plight of the world's airlines, seeing in it a lucrative source of new business. A consensus seems to be emerging that it is time for airlines to learn lessons from other mature sectors, such as cars. In particular, airlines are ripe for the lean techniques exemplified by Toyota's legendary production system. Their big suppliers, the aircraft manufacturers, have already had to learn a similar lesson. Boeing is belatedly trying to build its aircraft using lean, just-in-time production methods. Airbus had stumbled into this approach as a by-product of its distributed-manufacturing model which had, in turn, been dictated by the fact that it was a politically constructed consortium with partners in many countries. Now airlines are being forced to review their business systems from scratch.

A recent McKinsey study urging airlines to adopt lean techniques starts with a paradox. Each day airlines achieve the remarkable by safely moving 5m people some 40m air miles around the world. Yet they often fail to deliver ordinary things such as prompt arrival according to the published schedule. Too often a plane lands only to hang around for a ground crew to unload it, or for an earlier flight to move away from a gate. Routine maintenance work causes continual delays.

Not only connect

Booz Allen observes that connecting traffic is much less profitable than what the industry calls “origin-destination” (OD) traffic, which is passengers simply going from A to B. Its analysis of America's domestic market suggests that OD traffic is 1.6 to 2 times more profitable. Local business travellers from the hub city are the core of an airline's profitability. Outside America, the most striking example of this is BA: business travellers from Heathrow to New York and other American business centres are the source of most of its profits.

Connecting traffic, on the other hand, requires complicated check-in and passenger-handling systems geared to the most demanding of passengers, who are often allowed to change flight times right up to the last minute with no penalty. Scheduling flights to make easier connections leads to the low aircraft-utilisation that American carriers are trying to improve by “de-peaking” their hubs. Booz Allen suggests that American carriers should be combing through their flight operations and schedules with the aim of having a new business model that makes connections a by-product rather than a key objective. With this would go rapid turn-arounds and a 30% increase in plane and crew utilisation, as well as a doubling of productivity by ground crews.

Airlines that try to get lean should, however, note that few carmakers have learned to be lean winners. Several have been swallowed by rivals and others face extinction. The same would already be true of lots of big airlines, were it not for their indulgent governments. Even with help, big carriers will struggle to survive their industry's rapid transition towards a new business model.

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Oil

A burning question

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From The Economist print edition

Alamy

Why are oil prices so high?

Get article background

MANY people have been wondering why oil has become so costly. Its spot price has been close to $40 a barrel; one year forward, it fetches well over $30; and this week petrol prices hit record highs in the United States. Weekly, analysts have been tweaking their forecasts upwards.

The answer may come as a surprise. The usual culprit is the Organisation of Petroleum Exporting Countries, the cartel that tries to manipulate prices by adjusting agreed output quotas. In February OPEC shocked the markets by announcing that its members were to slash their “cheating” on official quotas by 1.5m barrels per day (bpd); the quotas themselves were to be trimmed by another 1m bpd at the beginning of April.

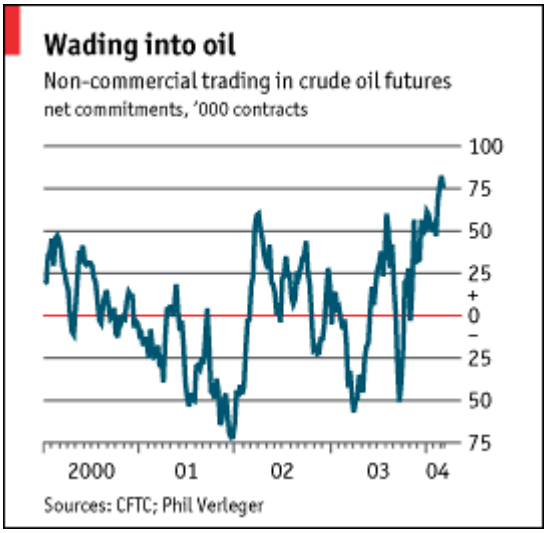
However, industry experts say that OPEC countries have hardly cut output at all in recent weeks. So freely are they still cheating that only Saudi Arabia, the kingpin of the cartel, has much spare capacity left. What is more, OPEC ministers might not cut their quotas after all. Some are wavering, and the oil might keep gushing. The ministers are due to meet in Vienna on March 31st.

If OPEC is not turning off the spigot, what explains the run-up in prices? One reason is surely demand: the strongly growing economies of America and China are guzzling more oil. If this goes on, OPEC's capacity constraints might bite. However, Algeria's oil minister, Chakib Khelil, thinks speculation is a more likely answer. He wants OPEC to cut output on April 1st for fear that the price might drop suddenly—by at least $7, he thinks.

Such talk is common from OPEC ministers. Usually it is self-serving nonsense, intended to deflect criticism of the cartel. This time there may be more to it. One reason to believe it comes from energy traders. The big trading firms typically deal with both “commercial” transactions—hedging ploys by firms such as airlines—and “non-commercial” ones by financial speculators such as hedge funds. Richard Schaeffer of ABN Amro, a Dutch bank with a big presence on the New York Mercantile Exchange (NYMEX), reports that the amount of speculation in oil is “more than I've seen in a very long time.”

What is more, despite some sell-offs early this week, there have clearly been some big bets on high oil prices. Non-commercial net long positions in futures markets are at an

unprecedented level (see chart). There is, says one trader, a lot of “paper froth” supporting oil prices. In its latest oil report, the International Energy Agency said that “the funds are having a field day”.



But why exactly have speculators piled into the oil market now? One reason may be uncertainty or disappointment with returns on financial assets. John Shapiro of Morgan Stanley believes that hedge funds, endowments and other investors have been drawn to the oil market by the lack of alternatives. He points to low interest rates and, until recently, the relatively poor performance of the stockmarket.

Another factor attracting punters and propping up oil prices may be what Eric Bolling, an independent trader on the NYMEX, calls “supply-disruption risk.” Political troubles in Venezuela, Nigeria and Iraq have long worried those who fear an interruption of exports. A bigger and newer aspect of this risk, however, is the fear of terrorism that might be targeted at oil infrastructure.

These worries have, in part, been fuelled by a most unexpected source: the American government. Despite the high prices, American officials continue to buy oil on the open market to fill their country's strategic petroleum reserves (SPRs). Why buy, you might ask, when prices are high, and thereby keep them up? The Senate has asked that question as well. It passed a non-binding resolution this month calling on the Bush administration to stop SPR purchases; but Spencer Abraham, the energy secretary, has refused.

The administration's persistence, coupled with increased strategic purchases by other governments, has fuelled suspicions that officials might have some intelligence about terrorist threats to oil infrastructure. The upshot is that concerns about disruptions to supply, by OPEC or by terrorists, now add up to what Mr Schaeffer calls an “unprecedented premium” on the price of oil. He observes that in the past, prices have spiked on worries that supply might be interrupted, but have then fallen back quickly. This time the premium seems to be lingering.

Some experts worry that the longer prices stay high because of this speculative frenzy, the harder they will fall. Perhaps all that can be said is that reading the oil market is as difficult today as it has been for a long time: strong demand, political unrest and OPEC discipline could drive the price higher, and encourage still more speculative buying; a slowdown in America or indiscipline in the cartel could remove a lot of froth in a hurry. Even if the price does drop, however, it need not collapse, because thanks to OPEC the oil market is like no other.

If speculators head for the door, Saudi Arabia, which has been called the central bank of the oil world, has one card to play that even the Fed does not. Ali Naimi, the Saudi oil minister, can announce that he will slash his country's output at once. Speculators will surely take notice, for he has a proven record of propping up prices. That is the sort of influence over markets that even Alan Greenspan must envy.

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Trade

Chip shots

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From The Economist print edition

America launches a trade attack on China, while the Doha talks are revived

FOR years there was little doubt about America's chief trade enemy: Japan. There is equally little doubt that China is taking over the role. It has fine credentials: its economy is only partly free; its workers are cheap and many of them are downtrodden; and it has a huge trade surplus with the United States.

After months of complaints by Congress, manufacturers and trade unions, Robert Zoellick, America's trade representative, is taking China to task. On March 18th he filed a case at the World Trade Organisation (WTO), arguing that China's value-added tax on semiconductor chips, which amounts to 17% of sales, discriminates against foreign chipmakers. That is thanks to a rebate scheme which reduces taxes on Chinese-made chips to a mere 3%. If the Americans and Chinese cannot settle their differences within two months, the case will go to adjudication.

This is the first time that America, or any other country, has brought a case against China since it joined the WTO in 2001. But it is not the first time that America has complained about China's languor in meeting its WTO obligations. Disputes in other industries, from package delivery to insurance, have flared up in the past, but have been settled out of court. So why has America suddenly hardened?

Maybe because there are more disputes yet to come, especially involving technology, and chips will serve as a useful signal of how fair the Chinese intend to play. For they seem to be cottoning on to the idea that trade barriers might shelter a growing domestic high-technology industry.

Take Wi-Fi chips, the devices that allow computers to access the internet through local wireless networks. The Chinese government has announced a new “security” standard for these that will take effect in June. The Americans point out that there is already an international standard for such technology. They fear that the Chinese move is merely a way to keep foreigners out; many do not want to develop special chips for the Chinese market. Intel, a big American chipmaker, has announced that it will stop shipping its fancy Centrino chip when China's new rule kicks in. Expect the Bush administration to lean further on the Chinese.

Techies are not the only ones who have cried foul at Chinese behaviour. The AFL-CIO, America's leading trade-union organisation, has complained to Mr Zoellick's office, alleging that China's treatment of its workers is unfair. It says that China fails to let workers organise, it harasses would-be union leaders and it fosters an overall climate of poor labour standards, including low pay. The National Association of Manufacturers is poised to pile on with a complaint of its own: that the yuan is undervalued. Both of these are outlandish by the usual standards of trade diplomacy: the WTO's rules cover neither labour standards nor exchange-rate policy. But they may nonetheless be harbingers of trouble to come, especially if protectionist sentiment on Capitol Hill persists.

The WTO has other business to deal with besides its first Sino-American dispute. The painstaking work of the Doha round negotiations restarted in Geneva on March 22nd. Delegates from member countries have been meeting for the first time since talks collapsed in Cancún last September to work out their positions on cutting agricultural tariffs.

Progress is, as always, slow. Months of jawboning and jetsetting by American and European officials have been needed even to produce this attempt to salvage the Doha round. But far more than the reputations of Mr Zoellick and Pascal Lamy, his opposite number in Europe, are at stake. That may yet yield a global trade deal worth far more even than trade peace between America and China.

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Minority shareholders in Brazil

Hopping

Mar 25th 2004 | SÃO PAULO
From The Economist print edition

A big brewing merger prompts a rethinking of shareholders' rights

WHEN AmBev, South America's largest brewer, and Belgium's Interbrew toasted the “birth of the world's biggest beer company” this month, not everyone raised a glass. As part of a complicated deal AmBev, which will keep its Brazilian listing, will buy Interbrew's North American operations—expensively, say critics. Holders of ordinary AmBev shares get to swap them for Interbrew stock, probably at a generous premium. Investors with non-voting preference shares do not; as a result, these investors believe that they have been landed with high-priced junk. The reputation of Brazil's capital markets could be “seriously damaged” by the deal, warned the investment director of Previ, a big pension fund.

The risk of discrimination is built into Brazil's stockmarket law, which resembles Italy's more than America's or Britain's. Two-thirds of a company's equity can be in the form of non-voting preference shares, called PNs. A stake of less than 17%—ie, a majority of the ordinary shares, or ONs—can be enough to exercise control.

Nearly all of the 365 firms listed on the Bovespa, the stock exchange, have a controlling shareholder, who generally wields near-absolute power despite a smallish financial stake. In the United States and Britain, points out Cristiano Souza of Dynamo Asset Management, conflicts over corporate governance tend to arise between managers and widely dispersed shareholders; in Brazil they pit strong owners against weak investors. But the balance is starting to shift.

Until recently, no one thought much about voting rights. Investors' main worry in a volatile emerging market like Brazil is the capacity to buy and sell quickly. PNs trade at a premium to ordinary shares not so much because they pay higher dividends and have prior claim on the assets of a bankrupt enterprise but because they are more liquid.

Lately the drawbacks of owning PNs have become more apparent. AmBev's tie-up with Interbrew saw its ONs soar in value while the price of PNs has dropped by 30% (see chart). Last year investors in Telemar, one of Brazil's main regional phone monopolies, were enraged when the holding company sold the group's cellular business to the operating company at a price most analysts considered exorbitant. Such incidents have been a “wake-up call for investors that just run after liquidity”, says Mauro Cunha of Bradesco Templeton, a “corporate-governance fund”.

Investors and companies are both paying attention. Over the stockmarket as a whole, the premium of PNs over ONs has shrunk, showing that investors are beginning to prize voting rights. On March 23rd AmBev belatedly offered to buy back some of its PNs. Companies eager to reduce their cost of capital are catering more to minority shareholders. Marco Polo, a large coach-builder, managed to issue shares a month before the presidential election in 2002, a time of intense gloom about Brazil's prospects, by listing on Bovespa's “level 2”, where PN holders get rights to piggyback on takeovers and limited voting rights. Around 30 other, mostly fairly small companies have conceded similar rights to PN investors.

This trickle should grow. Falling interest rates and an economic recovery are expected to tempt half a dozen companies to list their shares this year, including Natura, a cosmetics company, and Gol, Brazil's discount airline. These are thought to be a new

breed, willing to share control in order to raise capital more cheaply. Most are expected to list on level 2 or even on the “novo mercado”, which allows only ONs (and currently contains just two companies). If that happens, Brazilian shares will begin to taste fizzier.

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Japanese currency intervention

A fountain of yen

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From The Economist print edition

Is it drying up?

NO, SAY the Japanese authorities, policy has not changed. Speculation that the Ministry of Finance's buying of dollars on an enormous scale might be ending had pushed the yen up sharply in the week beginning March 15th; denial brought some respite. And on March 23rd Toshihiko Fukui, the governor of the Bank of Japan, restated the central bank's commitment to "quantitative easing"—ie, flooding the money markets with yen until inflation turns positive and looks like staying that way.

And yet, despite all this, the yen has been rising again. On March 24th Standard & Poor's, a rating agency that downgraded Japan three times in 2001 and 2002, said its outlook for the country had brightened, mainly because the economy is getting stronger. Thereafter the yen breached ¥106 to the dollar, its highest point for more than a month (see chart).

The scale of the Bank of Japan's intervention to hold down the yen has been staggering. During January and February, Japan spent ¥10.1 trillion ($95 billion)—equivalent to two-thirds of its current-account surplus last year—trying to weaken the currency. Izuru Kato of Totan Research, a think-tank, believes that a further ¥3 trillion-4 trillion has been spent this month. This would bring the total so far in 2004 to two-thirds that in the whole of 2003, a record-breaking year. As a product of intervention, Japan has been piling up American Treasury bonds: its stash grew by $192 billion to $577 billion in the year to January 31st. China's holdings increased by only one-seventh of that amount.

Currency intervention is often a fool's game, but Japan's seems to have been paying off. Painted as a strategy to prevent a sharp and disorderly appreciation of the yen, the policy of selling yen and buying dollars has helped boost exporters' profits, on which much of the recent recovery has been based. It has also helped to raise stockmarkets and battle deflation.

The policy has also been downright profitable. With Japanese interest rates close to zero, the cost of funding the intervention by issuing short-term bills to pay for dollar purchases is tiny. Dollar interest rates, though low in historical terms, are much higher, allowing the government to pocket the difference. The government already plans to transfer ¥1.4 trillion of such profits, the equivalent of a 0.8% rise in consumption tax, to its main budget for the next fiscal year, says Masaaki Kanno of J.P. Morgan Securities.

In theory, intervention on a grand scale could continue for some time. There is no shortage of funds: the limit on outstanding financing bills, previously ¥79 trillion, will be raised to ¥140 trillion from next month. Though there are fears that this will put upward pressure on short-term interest rates, in practice, the Bank of Japan can absorb much of the supply. For now, the chances of Japan's short-term interest rates overtaking America's, creating losses for the government, seem small. The main risk is that the yen will rise in spite of intervention, reducing the yen value of Japan's dollar holdings.

And if intervention should stop? Although American exporters might complain about the cheapness of the yen and other Asian currencies, the United States has been a beneficiary of Japan's policy. Intervention has helped finance America's twin deficits and hold down its long-term bond yields. This, in turn has

fuelled the booms in consumer spending and the housing market that have pushed the American economy along. It might be awkward on both sides of the Pacific if the lavish funding stopped.

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German banks

That shrinking feeling

Mar 25th 2004 | FRANKFURT
From The Economist print edition

Private-sector banks seek new ideas

IT'S an old joke, but here goes. Want to own a small German bank? Buy a big one. The story of Allianz, a big insurance company which bought Dresdner Bank in 2001, serves as a dreadful warning. Dresdner's capital has since fallen by more than half and it has lost €4 billion ($4.9 billion). Commerzbank and HVB Group, both takeover candidates, are busy performing similar shrinking acts.

That leaves Deutsche Bank, Germany's only well-heeled international bank, as a rumoured target. But Citigroup was turned away after two rounds of discussions. Since then a defensive wall of politicians, industrialists and central bankers has risen unsolicited to protect what they see as their “national champion”.

Deutsche, at least, has succeeded at foreign expansion, re-inventing itself as a wannabe global investment bank. Nearly half of its revenues last year came from the trading and securities businesses. The other three big German banks are scrabbling for a strategy that makes sense of their rag-bag of businesses: retail banking, asset management, small- and large-company finance, real estate, trading on their own account and investment banking.

A glaring weakness for all the banks is their poor share of the retail market. Dresdner wants to raise its market share from 4% to 10%, selling through Allianz's 10,000 independent insurance agents. HVB is putting more “advisers” into its branches. Deutsche has redoubled its retail efforts too. But other banks do it cheaper and better—for instance, Citibank (expanding), Postbank (the biggest in retail) and Volkswagen Bank (the fastest growing). Not all can be winners—unless, as Vasco Moreno, an analyst at Fox-Pitt, Kelton, suggests, their customers learn to accept worse service. They might not: closing branches in Germany costs customers, as Deutsche discovered.

So where do these poor banks turn? They have been housekeeping as much as they dare. Commerzbank cut 3,500 jobs last year and reduced its overheads by €640m, but then aroused local ire by paying its loss-making investment bankers €130m in bonuses. HVB has spun off its commercial real-estate arm, sold €8.9 billion of risk-weighted assets in its loan portfolio and a quarter of Bank Austria, its subsidiary across the border, and this week raised €3 billion of capital to offset last year's €2.1 billion loss.

Dresdner Bank hived off its bad loans last year into an Institutional Restructuring Unit (IRU). But the arrangement does not fool everybody. Its investment- and corporate-banking units squeaked into profit last year thanks to the €1.3 billion loss absorbed on their behalf by the IRU.

How long can these banks, even Deutsche, survive without a solid source of profits in Germany? There is a hope that lending margins to smaller companies will rise, and with them these customers' use of hedging and investment-banking products. Deutsche boasted in November that it would make a 25% return on equity from its 12,000 middle-sized corporate customers in the next three years. Commerzbank, which thinks itself the champion of such firms, will not let this happen without a fight. Dresdner Kleinwort Wasserstein, Dresdner's investment-banking arm, is betting more on German clients too.

There could be a fair old scrap ahead. New prudential rules will force publicly-owned savings banks and the co-operative banks to seek higher returns from the same customers that the private institutions are chasing. Who will come out on top is anybody's guess; but the private-sector players will have to raise their game.

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Polish retail finance

Home banking

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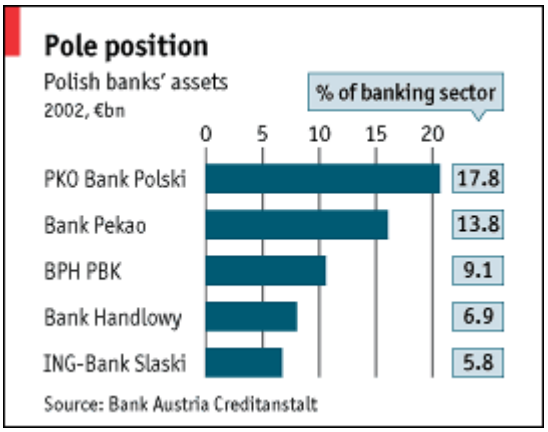
Is the government serious about selling its savings bank?

PRIVATISATION is a touchy issue in Poland—one reason why the ruling Democratic Left Alliance has brought state sell-offs to a virtual halt. Yet the new treasury minister, Zbigniew Kaniewski, seems eager to push ahead with the long-delayed sale of PKO Bank Polski, the country's biggest savings bank. On March 22nd he asked Credit Suisse First Boston to be lead adviser for an initial public offering of a 30% stake, ideally by the end of the year. A sale would go about halfway to meeting his ambitious target of 8.8 billion zlotys ($2.3 billion) in asset sales to help plug the budget deficit.

This is the fifth attempt, no less, to sell PKO. Successive governments have been torn between raising money and retaining its Polish identity. It is quite a prize. The last of central Europe's big banks still in state hands, PKO commands one-sixth of Polish banks' assets and one-quarter of their retail deposits. Lately it has smartened up its dowdy image. Poland's entry into the European Union on May 1st only adds to the attraction.



However, investors might wonder whether Mr Kaniewski really means it this time. On March 19th he beat the drum of economic nationalism, calling for the merger of PKO and PZU, Poland's dominant insurer, to create a bigger firm he would like to call the National Financial Group. The tie-up, he said, would be “one of the last chances to keep at least part of Poland's financial sector in local hands.” Fair enough: foreign lenders control four of the five largest banks. The story is similar in other central European countries.

The notion of a merger is hardly new: politicians have often mooted the forging of PKO and PZU into a national champion. Yet Mr Kaniewski cannot have it both ways. The uncertain prospect of a merger with PZU could wreck PKO's flotation. Investors in PKO will not know what they are buying, especially in view of an ugly stand-off between PZU's two main shareholders: the Polish state, which owns 55%, and Eureko, a Dutch-led alliance of insurers, which with a Polish partner has 31%. The two are in a legal battle over the government's refusal to honour a deal signed by its predecessor to grant Eureko control of PZU. “Until this is settled, it would be a risk factor in PKO's prospectus, to put it mildly,” remarks a banking analyst.

Worse, a merger would probably contravene Poland's banking and insurance regulations. In any case the two companies are scarcely healthy separately: together, they could be a disaster. Both are woefully overstaffed, are struggling to overhaul their information-technology systems and are deeply politicised. Even partially privatised, PZU has been a fount of state patronage.

If Mr Kaniewski truly wants to sell PKO, he should forget his plan to create a financial titan. To add to his difficulties, the Polish government is on the brink of collapse. Privatising PKO should be achievement enough.

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Economics focus

Footloose firms

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Are global companies too mobile for workers' good?

MULTINATIONAL companies, if you believe the claims of anti-globalisers from Seattle to Cancún, are the ugly face of capitalism. Not only are they as despoilers of the environment and masters of sweatshops, but they are fickle too. They have no commitment either to the countries in which they are based or to those in which they invest. They move jobs from one country to another purely on the basis of cold calculation, seeking lavish subsidies to persuade them to invest or to stay: John Kerry, America's Democratic presidential candidate, has labelled companies that switch production overseas “Benedict Arnold” firms, after a traitor in America's revolutionary war.

These are serious charges, made more pertinent by the increased importance of investment by multinationals to many economies. Total annual foreign direct investment (FDI) flows increased sixfold, to $1.4 trillion, between 1990 and 2000, before falling back by half by 2002. Those flows now seem to be on the increase again. Although most FDI moves between rich countries, growth in investment in developing economies has been remarkably rapid, with China being easily the leading location. Once, these countries were fearful of investment by outsiders. In recent years they have embraced it with varying degrees of enthusiasm, but suspicion of inconstant foreigners remains.

Are multinational corporations really any more fickle than purely local employers? Recent research suggests, in fact, that they tend to stick around longer than local firms—not because they are foreign, but merely because they tend to be bigger and more efficient than average. It has taken economists a surprisingly long time to look into this question in much detail.

One recent paper* shows that some of the conventional concerns about multinationals are wrong. Andrew Bernard of Dartmouth College's Tuck School of Business and Bradford Jensen of the Institute for International Economics have studied how the ownership of American manufacturing plants affects their chances of closing. Their data show that plants are set up and closed down surprisingly often; there is a lot of “creative destruction” going on. Around 27% of all plants with more than ten employees shut during any five-year period. They also find that between 1987 and 1997 American factories owned by multinationals were less likely to close down than purely local firms.

Plants owned by multinationals last longer because of their greater average productivity, their heavier use of capital and their larger size. They tend also to have access to cheaper finance, either from the capital markets or from their internal cash hoard. In general, exporters are less likely to die than are factories that only produce for the domestic market, which also plays to multinationals' strengths. This does not support the idea that multinationals are especially guilty of “shipping jobs abroad”. Indeed, say the authors, multinational firms are more able to fend off competition from low-wage countries. So multinational companies' workers are better protected against cheaper foreign labour than workers at locally owned firms.

How about the record of global companies operating in poor countries? In a new paper†, Mr Bernard and Fredrik Sjoholm, of the Stockholm School of Economics, consider the rate of plant closures in Indonesia, a country many activists regard as having been especially damaged by fickle foreign investors. In fact, over a 15-year period, closure rates for foreign-owned factories in Indonesia were ten percentage points lower than for locally owned ones. So multinationals again come out well.

Fodder for protectionists?

However, there is a catch. In both America and Indonesia, the results are partly deceptive. In both countries plants belonging to multinationals are much more efficient than their rivals. When the researchers compared factories owned by multinational firms with factories of the same size and efficiency, however, their results were reversed: the probability of closure was 20 percentage points higher in Indonesia and three points higher in America for multinationals than for local firms. Thus multinationals of any given size and efficiency level are more likely to close their factories; but because their plants tend to be bigger and more efficient, on average they are more enduring.

Up to a point, therefore, multinationals are footloose. Nonetheless, do their benefits outweigh their costs? It seems so. First, their greater scale and efficiency ought to be taken into account. Second, they often pay people more than they could earn at similar local plants. The authors, though, suggest that this might merely compensate workers for the greater risk of losing their jobs; but the evidence is still unclear. Third, the discipline provided by footloose investment might increase competition and thus spur on local firms to increase productivity.

Economists have other reasons for taking a more benevolent view of global firms than politicians or anti-globalisation activists. Not only do multinationals usually pay more, and sometimes much more, than indigenous employers, but their workplace conditions in poor countries tend to be better than at local firms, even if they are often far worse than in their home country. They transfer technology and know-how to their host economies. They provide access to foreign markets that local firms could never have penetrated.

For all that, it appears that multinational firms of the same size and efficiency look more likely than comparable firms to shut their factories down. Critics of globalisation may call that a threat to sovereignty. But they should consider the possibility that the economic benefits exceed the drawbacks.

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* “Firm Structure, Multinationals, and Manufacturing Plant Deaths”. mba.tuck.dartmouth.edu/pages/faculty/andrew.bernard/deaths.pdf

† “Foreign Owners and Plant Survival”. NBER Working Paper No. 10039: www.nber.org/papers/w10039

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CERN at 50

The emerald city

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Europe's biggest particle-physics laboratory is half a century old this year. What does the future hold?

BEFORE the days when marketing departments dictated that acronyms should be engineered to sound like real words, a group of Europeans got together in Paris to consider whether their countries should pool their expertise on matters sub-atomic. It was 1953—less than a decade after Robert Oppenheimer, Ernest Lawrence and Enrico Fermi had given America the means to destroy entire cities with a single bomb.

Though the talk then was of the peaceful use of nuclear power—unlimited clean electricity from first fission, and then fusion—the subtext of subatomic physics was military. But for those with more lofty goals, the particle accelerators that had descended from Lawrence's pre-war cyclotrons brought with them the promise of understanding the fabric of the universe at its smallest level. This combination of terror, hope and curiosity meant that physics in the 1950s was sexy in a way that modern physicists can only envy.

The result of the discussions in Paris was the establishment a year later of CERN, *le Conseil Européen pour la Recherche Nucléaire* (these were also the days before English had displaced French as the lingua franca). Over the decades, CERN has contributed mightily to knowledge of the submicroscopic world as bigger and bigger accelerators have been built there. Now it is re-inventing itself, in an attempt to continue that tradition.

The Wizard of Oz

On the surface, CERN is a collection of low, undistinguished buildings on the outskirts of Geneva. But beneath that surface is a secret—a 27km-long, ring-shaped tunnel that juts under France. At the moment, the tunnel is empty. But soon, it will start to fill up with blue tubes whose deviation from straightness is imperceptible to the naked eye. The tubes contain magnets. And when they are linked together in the tunnel they will form a guide path for zillions of protons which will shoot around the ring at close to the speed of light. That guide path will be called the Large Hadron Collider (LHC), and it will be the biggest accelerator of all. If it works—and if theoreticians are correct—it will fill in the remaining blanks of the current model of subatomic physics, and send the first scouting parties into the uncharted territory beyond.

The man in charge of making this happen is Robert Aymar, and his task is not a trivial one. The LHC has already had one near-death experience. In 2001, Luciano Maiani, Dr Aymar's predecessor, announced without warning to CERN's council—a committee that represents the member states—that the machine was 20% over budget. The magnets which accelerate and guide the protons were proving more expensive than expected.

This did not go down well. So in desperation, the council turned to Dr Aymar, who was then in charge of ITER, another big, international physics project (intended to build a working fusion reactor), to report on how the LHC could be brought within budget without increasing members' contributions.

The report was ruthless. It recommended suspending most of the secondary scientific projects at CERN. The money saved plugged the gap. The total bill for the LHC should be about SFr3 billion ($2.35 billion).

The council loved it, and after a discreet interval Dr Aymar took over from Dr Maiani as director-general—only the second non-particle physicist to occupy the post. The robust approach has continued since he formally assumed office on January 1st. CERN's unwieldy management structure has been tidied up. He has compressed the organisation's 13 divisions into seven “departments”. This being an international bureaucracy, it is impossible to force people off the payroll. But natural attrition should cause the workforce to dwindle over the next few years from 2,500 to a planned total of 2,000.

As it happens, this is an ideal time to reorganise CERN. After 50 years, it had become sclerotic. The completion date for the LHC had slipped from 2005 to 2007. And the idea that particle physics has military applications is long gone, so politicians in member states might be forgiven for wondering what they are getting for their money. A shake-up looks purposeful as well as actually being purposeful. It gives the members confidence that their money is not being frittered away—at least, not if uncovering the secrets of nature (and beating the Americans to them) is seen as a legitimate objective.

As to the LHC itself, its first task will be to look for a particle called the Higgs boson. This is something that theoreticians believe should exist if their explanations of why things have mass are true. If the LHC cannot find the Higgs (and the result should be known within a year or so of the accelerator opening for business), then it is back to the drawing board for everybody.

Finding the Higgs boson would complete the so-called Standard Model of particle physics that has come together in the past 30 years. But theoreticians know that the Standard Model itself is an imperfect representation of reality. For one thing, it relies on some 18 arbitrary assumptions being true. The best shot that physical theory has in its locker to replace the Standard Model is called supersymmetry. This would deal with the arbitrary-assumption problem, but at the expense of giving most of the known fundamental particles “supersymmetric” partners that are much more massive, and thus harder to make. The LHC will be able to enter the territory of supersymmetry and discover some of these particles if they actually exist, but would not be able to explore that territory fully. To go further, yet another accelerator will be needed.

Beyond the yellow brick road

In building 18 on the CERN site Ian Wilson plots that future accelerator. Almost all particle physicists agree that the future is a straight line. Circular accelerators have the advantage that particles can be sent round and round them, each circuit adding a bit of energy, and thus speed. Linear (ie, straight-line) accelerators offer only one journey for each burst of particles, so they have to be long.

One reason that they are attractive despite this is that rings waste energy. Forcing a charged particle to travel in a curve generates “synchrotron” radiation, and the faster the particle is travelling, the more energy is lost this way. The losses in a post-LHC ring would probably be unacceptable. But a linear accelerator suffers from no such losses. And yet there remains another problem. The more fundamental the particle being studied, the bigger the machine that is needed. So the linear accelerator required for future experiments is likely to be so big and expensive that most people believe it will never be built using existing technology. Dr Wilson aims to change that technology.

The CLIC (compact linear collider) technology he is developing is one of the few non-LHC projects to survive Dr Aymar's axe. And for good reason. If it works, it could shrink linear accelerators by a factor of four, with no loss of power.

A traditional linear accelerator uses devices called klystrons to give oomph to the particles it is speeding

up. These generate pulses of microwaves which carry the particles along as a sea-wave carries a surfer. CLIC technology also uses klystrons, but instead of accelerating a working beam of particles, the klystrons accelerate a “driver” beam that runs alongside the working beam. It is energy from the driver beam that actually pushes the working beam along.

Although this arrangement is harder to engineer, it results in more rapid energy transfer, and thus a shorter accelerator. If converted into an actual machine, that compactness would, in turn, result in huge cost savings, and might be the decisive factor which makes it possible to build a linear accelerator more powerful than the LHC.

Even so, the cost of such a machine would still be so large that only one is likely to be built, and it would be a global project involving America, Japan and anyone else who could be persuaded to contribute. Dr Aymar is bullish about CLIC technology being the right one for the future, but he claims indifference as to where a global linear accelerator should actually be sited. Of course, he is unlikely still to be director-general when the decisions are made, let alone when the machine is built. There are, however, wider considerations.

America has the most money to contribute to such a project, but America's Congress has proved tight-fisted in the past. A decade ago, Congress killed a project called the Superconducting Super Collider that would have put the LHC in the shade. So what looks like a position of strength for American particle physics could actually be interpreted as a position of weakness. The result, however, might be the same—that instead of building the next accelerator in America because the Americans demand it, it gets built there as a way to keep American particle physicists in business. If Dr Aymar succeeds in making CERN into an organisation which has the strength of character to make a sacrifice like that, he will truly have shown himself to be a wizard.

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Particle physics

Precise in every part

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A new measurement points towards the next level of physical theory

NOT all of particle physics has gone on hold in anticipation of the Large Hadron Collider (LHC), a new accelerator being built at CERN (see article). Indeed, Lee Roberts and his collaborators at the Brookhaven National Laboratory, in New York state, have used a “retrofitted” 40-year-old machine known as the Alternating Gradient Synchrotron to make a measurement which, if confirmed, has troubling implications for the Standard Model of fundamental physics.

This measurement, which is to be published in a forthcoming issue of *Physical Review Letters*, concerns particles called muons. These particles are “cousins” of electrons. In fact, they have been thought of as identical to electrons in every way, except that they are about 207 times heavier and, as a consequence of this extra mass, they (unlike electrons) decay into other particles soon after they are created. But Dr Roberts begs to disagree. His measurements suggest that muons also differ from electrons in a property called magnetic moment, which governs a particle's interaction with magnetic fields. The measured magnetic moment of the electron agrees with that predicted by the Standard Model to within four parts per billion. According to Dr Roberts, however, the magnetic moment of muons could deviate from the model's predictions by almost 1%—a massive discrepancy as these things go.

The result is not a total surprise, since less-precise measurements published three years ago suggested that antimuons (which ought, if theory is correct, to have the same magnetic moments as muons) are similarly anomalous. But it does demand explanation.

According to Dr Roberts, that explanation may lie in one of the so-called supersymmetric theories that have been proposed in order to tidy up other anomalies in the Standard Model. These theories postulate the existence of hitherto unobserved particles of the sort that CERN will be looking for when the LHC is finished. If that turns out to be correct, the ancient Alternating Gradient Synchrotron may have trumped the LHC with the first practical evidence of supersymmetry, even before the LHC has been completed.

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Hypersonic aviation

Speed demon

Mar 25th 2004
From The Economist print edition

An aeroplane intended to be the fastest ever built is about to make its first flight

SINCE the first aeroplane wobbled off the ground a hundred years ago, engineers have dreamed of making their magnificent machines fly faster and faster. But for a long time the world speed record has not changed. The SR-71, an American spy plane, has been the fastest publicly acknowledged aircraft for almost 40 years. It has a top speed of just over Mach 3—in other words, three times the velocity of sound, or about 3,000 kilometres per hour. But if all goes well, this will soon change. On March 27th, NASA, America's aerospace agency, will conduct a test flight of an aircraft called the X-43A at Edwards Air Force Base in California. This vehicle is, admittedly, a disposable, unmanned drone. But its top speed is supposed to be a remarkable Mach 7.

NASA

Per ardua ad astra

The X-43A is powered by an engine known as a scramjet. Scramjets work on a simple principle—simpler, indeed, than the turbojets used in conventional aircraft. The engine is a tube through which air flows at supersonic speeds. While the air is in the tube, it is mixed with a fuel (in this case, hydrogen) and burned. This causes the mixture to expand. The exhaust thus goes out the back even faster than the air came in the front. Newton's third law of motion (to every action there is an equal and opposite reaction) then propels both engine and aircraft forwards.

The tricky part, according to Joel Sitz, the head of the X-43A flight-test programme at NASA's Dryden research centre, located next door to Edwards, is that the air is in the tube for mere milliseconds. Getting such details as the fuel-air mixture right is thus hard—and is made harder by the fact that what is right is different at different speeds.

At the moment, the “variable geometry” engine design needed to accommodate these differences is beyond the skill of aircraft engineers. So, to simplify the task, Saturday's flight will not require the X-43A to accelerate under its own power. Instead, it will be taken to high altitude by a B-52 bomber, dropped from the bomber, and then accelerated to Mach 7 by a booster rocket. Only then will the booster be jettisoned and the scramjet ignited.

Some readers may think that this plan sounds familiar. It is. But the last time NASA tried it, in June 2001, things went haywire a few seconds after the booster started firing. The rocket span out of control and had to be ordered to blow itself up.

An investigation concluded that data from computer simulations and wind-tunnel tests had been misinterpreted. One problem was that the rocket used as a booster (a type known as Pegasus, that is designed to be used as a satellite launcher) is usually dropped from its launch aircraft at an altitude of 12,200 metres. In 2001, the release was done at 7,000 metres. The difference in air pressure made the rocket behave abnormally, and probably contributed to the crash. Saturday's test will therefore take the sensible step of starting at 12,200 metres.

If all goes well this time, a Mach-10 flight of another X-43A will take place in July. A follow-up craft, the X-43C, is also in development. This will use a hydrocarbon fuel (think exotic petrol) rather than hydrogen. That will allow an X-43C to fly for up to five minutes, rather than a mere ten seconds. But the X-43C will still be disposable. A re-usable version, paradoxically known as the X-43B, is planned, but no money has yet been allocated to build it.

Though the X-43 project is a modest start, it could lead to bigger things. In the long term, scramjets offer the possibility of cheap access to space. That is because, unlike the rockets currently used to get into orbit, they are air-breathing. This means they do not have to carry liquid oxygen (or some other oxidant) to burn their fuel, and could thus use the weight saved to carry a bigger payload. A scramjet-powered booster could thus launch heavy loads to the edge of space. Only there would a rocket be required.

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Mars

Opportunity strikes twice

Mar 25th 2004
From The Economist print edition

Yet more evidence of Martian water

Get article background

THE X43A (see article) represents the first “A” of the National Aeronautics and Space Administration. But it is the “S” that NASA is best known for, and which its publicity machine likes to keep in the public eye. Water-on-Mars stories, which celebrate the success of the agency's two rovers on the planet, are a good way of doing so. Another one has just been released.

Evidence for, at the least, a salty pond, and possibly for a sea having covered the area where the rover *Opportunity* is operating comes in two parts. The first is that one of the rocks *Opportunity* has been examining has bromide salts distributed throughout it in a manner characteristic of what would happen if sea water were to evaporate on Earth. The second is a detailed photograph of a geological feature known as a “crossbed”. When grains of sediment start to move in a current, they tend to form little mounds that migrate downstream and then avalanche over the grains in front of them. This produces sedimentary layering at an angle to the surface the grains are moving on—in other words, crossbedding.

Crossbedding in the local rocks was first reported three weeks ago. But, at that point it was not clear whether water or wind was the cause. Close-up photography strongly suggests it was water.

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About sponsorship

The art of Byzantium

Glories of gold

Mar 25th 2004
From The Economist print edition

MET

Byzantium's icon painters were the Mel Gibsons of their day—and more

NEW YORKERS are assaulted by thousands of images every day. In recent days, scenes from the death, burial and resurrection of Jesus Christ—all of them images designed to make people think harder about the relationship between spiritual authority and earthly power—have had an unaccustomed impact.

Thus far, at least, we might be speaking of Mel Gibson's blockbuster film, “The Passion of The Christ”—or of another, rather more rarefied event that will nonetheless make a deep impression on American consumers of high culture: the opening at the Metropolitan Museum of Art of a wonderfully rich selection of the artistic and spiritual achievements of late Christian Byzantium, and its imitators in the Slavic world.

Inevitably, comparisons will be made. For better or worse, Mr Gibson's film is probably the most ambitious attempt to recreate on film the 2,000-year-old story in whose light more than a billion people alive today believe themselves to be living. At least in theory, every drop of historical knowledge and technology available to a modern cinematographer has been deployed to make the film as “realistic” as possible, in terms of landscape, architecture and even language.

The icons, manuscripts, embroidered vestments and other religious objects on show at the Met do not set out to achieve that sort of verisimilitude. But they are among the supreme achievements of another era's effort to describe the same narrative through an entirely different medium, that of formal sacred art oriconography.

Is there really such a difference? Mr Gibson's film company is called Icon Film Distribution, and its logo is one of Russia's most beloved sacred images, the tender, mournful depiction of Mary known as the Vladimir Mother of God. But as visitors to the Met—regardless of their religious affiliation—will almost certainly notice, the Byzantine iconographers' Christ is very far from that of Mr Gibson, in spirit as well as detail. The film's most powerful images are—to put it mildly—somewhat one-dimensional: they show a man enduring torture and abasement at the limits of human endurance, for a reason which a person unfamiliar with the story would find hard to discern. Presumably, the untutored viewer might conclude that the hero was a gifted preacher who had somehow incurred the wrath of his rulers; but it would still be hard to work out what the point of the story was.

The Byzantine Christ, by contrast, never ceases to be many different things at once: divine and human, humiliated and victorious, wounded and healing. Even at the darkest moments of the Passion story, the dawn is already present. Even when Christ is at his most humble and abased, he never ceases to be the Word of God made flesh.

The conventions of icon-painting, on which individual artists could make only slight (but often brilliant) variations, are designed with these very paradoxes in mind. Grief and pain are expressed with restraint, not self-indulgence; joy and sorrow, abasement and victory, the transient and the eternal are endlessly combined.

One of the most astonishing images on show at the Met is a virtually monochrome Christ, borrowed from Russia but originating from somewhere in the Balkans, in which the eyes are closed and the body hunched in a pose of Munch-like intensity: it is full of cosmic, rather than individual, pain and there is not a hint of the narcissism which Mr Gibson's Christ often seems to display. The title, bestowed without irony, is the “King of Glory”.

As their makers conceived them, these icons are not decorations, photographs or historical records: they are windows on to heaven through which the believer can enter a higher reality. Even as nails pierce his hands, the Christ of Byzantine icons is still God incarnate, surrounded by a golden halo which glows even brighter as the conquest of death itself is accomplished. Blood flows from his side in a stylised stream, bringing life and healing to the stony hill below.

In iconography, moreover, the Cross itself, with its T-shaped elongated arms, is not so much a literal depiction of the Roman empire's preferred instrument of torture: it is a benign kind of tree, with echoes of the Tree of Life in the Garden of Eden, whose branches reach out in a gesture of protection and healing to the human race.

Precisely the same sort of paradox is elaborated, over and over again, in the liturgical poetry of the eastern Church: this is not just a man suffering, but the Creator himself entering the darkest moments of the human experience and hence redeeming them. When Mary Magdalene speaks to Christ, it is not simply a friend she addresses but her God: “Accept the fountain of my tears, O Thou who drawest down from the clouds the waters of the sea.” When Christ is laid in the tomb, he is attended by adoring angels; they at least know that he has never ceased to be God.

More than 350 objects—icons, manuscripts, vestments and other gorgeously embroidered fabrics—have been gathered together, including 40 from St Catherine's Monastery in Sinai and several from Kosovo where more than a dozen churches were destroyed last week. This, the third and last in a series of shows that the Met has devoted to the empire of Byzantium, tries to recreate the so-called Byzantine commonwealth as it existed before and after the Ottoman Turkish conquest of Constantinople in 1453. Was it the twilight of Christian Constantinople, then? No, insists Helen Evans, who curated the exhibition. What she is trying to show is that even as Constantinople's territory shrank to a small patch of land outside the city, its artistic and spiritual power continue to pulsate like a beacon throughout the eastern half of Christendom.

The Serbs, Bulgarians and above all the Russians had no wish to live under the political sway of a Greek-speaking empire; but they acknowledged Constantinople's authority in matters of art and theology by reproducing and developing the models which had first been made on the shores of the Bosphorus.

After the Ottoman Turkish triumph of 1453, the Greek patriarchate's authority over the new empire's Christian subjects was left intact and in some ways broadened—but its claim to be the main spiritual centre of Orthodoxy (and also to be the heir of at least one part of the Roman empire) was challenged by Moscow.

As the exhibition shows, the battle within eastern Christendom for the mantle of spiritual and secular power was at times a ruthless affair; in these wars the humility of God-incarnate hanging on the Cross can be very hard to discern. But even as the would-be rulers of earthly kingdoms did battle, the artists they commissioned—often for reasons that were closely connected with earthly power struggles—had a deep sense of the spiritual struggle at the heart of their faith; and they portrayed it in a more subtle way than cinema has so far managed to do.

“Byzantium: Faith and Power (1261–1557)” is at the Metropolitan Museum of Art, New York, until July 4th

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The Chinese leadership

The strongbox from within

Mar 25th 2004
From The Economist print edition

IT IS not always worth shelling out for a second edition, but in the case of "China's New Rulers", it is money well spent. The original version, which came out in 2002, was one of the more remarkable political documents of modern times, containing the internal party reports on those up for election that year to the Standing Committee of the Politburo of the Chinese Communist Party—the small, intensely secretive body that controls China. Similar documents have appeared before—"The Private Life of Chairman Mao", for instance, or "The Tiananmen Papers"—but never, so to speak, in real time. The first edition shed abundant light on high political processes as they were happening.

For that reason, though, it quickly needed updating. The 2002 "election" threw out plenty of surprises. The number of members on the committee was increased from seven to nine, making it possible for the outgoing president and party secretary-general, Jiang Zemin, to leave behind more of his creatures than had been expected. Li Ruihuan, a prominent reformer, was unexpectedly dropped. And Mr Jiang himself, again contrary to some predictions, has clung on as head of the organ that controls the Chinese army, a position of singular importance. The manoeuvrings that lay behind these developments are newly discussed here, making the second edition a must-have for Sino-watchers.

China's New Rulers: The Secret Files
By Andrew J. Nathan and Bruce Gilley

New York Review Books; 281 pages; $14.95 and £8.99

Buy it at
Amazon.com
Amazon.co.uk

All very well, but can we trust the source? Sadly, this is no clearer than it was before. The documents in question have purportedly been provided by unknown, but necessarily highly placed, persons to a Chinese writer known only by the pseudonym Zong Hairen. He published them under the Chinese title "Disidai" before the 2002 shake-up, and, since then, has issued further articles illuminating that process. Andrew Nathan, professor of political science at Columbia University, and Bruce Gilley have put book, articles, their conversations with Mr Zong and other materials together, but the whole process is still far from transparent. Mr Nathan's reputation as a scholar is such that one is inclined to trust him. But readers should not forget that, like Kremlinology before it, the study of Zhongnanhai, the compound where China's rulers live and work, is a very shadowy business.

China's New Rulers: The Secret Files.
By Andrew J. Nathan and Bruce Gilley.
New York Review Books; 281 pages; $14.95 and £8.99

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About sponsorship

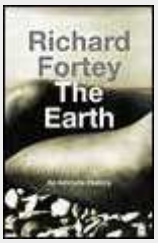
Geology

Theirs is the Earth, and all that's in it

Mar 25th 2004
From The Economist print edition

RICHARD FORTEY is the Raymond Chandler of science writing. His prose is angelic (no slumming here, though), and his phrases well-turned. Veins of quartz are frozen lightning; the rocky layers of the Alps are badly tossed pancakes. And though “The Earth” is no murder story, it is a mystery book and, in its own way, a thriller.

The Earth: An Intimate History
By Richard Fortey



HarperCollins; 501 pages; £25.

Buy it at Amazon.co.uk

Mr Fortey, whose day job is as a paleontologist at London's Natural History Museum, skilfully interweaves the history of geology with the history of the planet which that science attempts to describe. In particular, he describes the century-long birth-pangs of plate tectonics. This is the theory, now backed by so much evidence that its overthrow is but the remotest of possibilities, that the face of the Earth is divided into, and sculpted by the movements of, immense and rigid slabs of rock known as plates. The borders between these plates are the mountain ranges and ocean trenches that snake across the Earth's surface.

In Mr Fortey's eyes, everything in geology—from the highest of mountains to the smallest of crystals—can be traced back to the movements of plates. He illustrates this with lucid descriptions of parts of the world with which he is familiar: the bay of Naples, the Alps, Hawaii, Newfoundland and many others. In some of these places, plates are jostling for position, throwing up mountain ranges and volcanoes as they do so. Others, now quiet, mark the sites of such struggles in the distant past. It is possible to read the rocks in these quiet places and reach back in time to reconstruct ancient continents and oceans quite unlike those which exist today.

Meanwhile, the human struggle to show that continents move around, split up and recombine was every bit as titanic as the struggle for space of the plates themselves. The names of long-forgotten geologists litter the pages. Eduard Suess assembled much of the data that showed the continents must have moved, but could not bring himself to draw that awesome conclusion. Alfred Wegener stuck his neck out to speak the truth, and had his professional head cut off for his pains. The same almost happened to Arthur Holmes, but he lived long enough to see the idea proved beyond reasonable doubt.

Mr Fortey's other thesis is that geology not only matters, it underpins most human activity. Sometimes this underpinning is literal; rocks, after all, are what govern landscape, agriculture and patterns of human settlement. Sometimes, the underpinning is metaphorical—minerals, for example, underpin both industry and, in the form of gold and silver, economics. And sometimes the underpinning can stretch as far as philosophy and theology. Through Lake Averno, in a dormant but sulphurous crater near Naples, geology gave to religion the underworld reserved for sinners. Through its revelation of the age and evolution of the Earth, it took from religion the right to explain human origins. Though, like the history of the planet it describes, “The Earth” sometimes seems unfathomably long, it will, like that planet, repay the patient investigator's curiosity many-fold.

The Earth: An Intimate History.
By Richard Fortey.
HarperCollins; 501 pages; £25.
To be published in America by Knopf in November

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New poetry

For crying out loud

Mar 25th 2004
From The Economist print edition

The year's best verse

FROM the 1950s onwards poets in England and America began to let their hair down a little—and then a lot. Why? Ascribe the fact to new movements in poetry, and a developing taste for mingling with the public. It was from the middle 1950s onwards that the idea of a poet performing his own work in public really took off, the decade when the Beat Generation—Allen Ginsberg, Lawrence Ferlinghetti and others—performed in the cafés of San Francisco.

Reading out loud helped to drag poetry out of the academy and into the streets. Poets were real people. But the way poetry was being written had changed too. Poems had become more tangible, more touchable. They were not just beautiful or bamboozling machines made out of words; the words poets used—surprise, surprise—were common to all of us.

Some of the best of the new and recent collections of verse from Britain and America have been written by poets with very distinctive reading styles and very approachable manners of addressing their audiences. Some poets read their poems out loud as if they'd just shaken hands with them for the first time, stiffly, and with a slight tremor of awkwardness. Other poets read in a way that makes their poems sound like their own rawly beating hearts, freshly, bloodily wrenched into public view.

C.K. Williams, who last November won the National Book Award for his 15th collection of verse, is the latter kind. His poems, with their long lines and even longer sentences, usually consist of a single sweeping movement, some relentless, highly emotionally charged pursuit of a thought, a perception, a moment of enlightenment. His manner of reading is driven, edgy, impassioned, and his themes—the precariousness of the self; the painful, unvarnished truth of human situations—usually develop out of small incidents in his own life, things or people seen, often fleetingly.

One of the most important movements of new verse during the 1950s grew out of New York friendships. “The New York Poets”, an anthology which was published in Britain last year, tells the story of four poet-friends—Kenneth Koch, John Ashbery, James Schuyler and Frank O'Hara—through selections of their work. When they met, poetry was suffering from a hangover induced by the bad habits of the 1940s, namely a stiff, over-serious, academic manner. Mr Ashbery and his friends wanted to loosen and lighten things up a bit; to incorporate popular culture, informal speech and life-on-the-wing into their art—matters that more academic poets might have considered too profoundly unserious for the high calling of the poet.

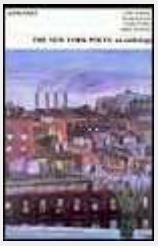
So O'Hara began to write about how terribly vivid and exciting life could be in New York; Koch went in for a lot of humour and literary spoofing—“the city is hot and bright and noisy like a boiling kettle”, he writes in one of these poems. And Mr Ashbery, the only one of the quartet who is still alive and writing, developed an extraordinary ruminative manner of writing which manages to be both serious and jocularly throwaway at once.

The Singing: Poems
By C.K. Williams

Farrar, Straus and Giroux; 72 pages; $20.
Bloodaxe Books; £7.95

Buy it at
Amazon.com
Amazon.co.uk

The New York Poets: An Anthology
Edited by Mark Ford



Carcanet; 224 pages; £9.95

Buy it at
Amazon.co.uk

American Sonnets: Poems
By Gerald Stern

Norton; 76 pages; $12.95

Buy it at
Amazon.com
Amazon.co.uk

Another recent National Book Award winner, Gerald Stern, has this delightfully engaging way of talking to you directly, as if a poem might just be a seemingly casual conversation between two awfully complicated people. Mr Stern calls his new book “American Sonnets”, but these languorously tender poems lack the formal address of the traditional sonnet form—and they are all 20 lines long instead of the more usual 14.

Skywriting and Other Poems
By Charles Tomlinson

Ivan R. Dee; 96 pages; $18.95. Carcanet; £7.95

Buy it at
Amazon.com
Amazon.co.uk

In praise of sinks

Mr Stern's poems are deftly constructed out of snatches of autobiography, past and present, mingled with some fairly haphazard meditative moments. They are comically bathetic—one is written in rich praise of sinks that he has used and loved; another extols the unfathomable glories of the string bean. He is the most nudgily companionable of writers. In demonstrating, quite so publicly, how he is forever struggling to make a kind of sense of the messy experiences of his life, he encourages us to go some way towards making sense of our own—or, at the very least, to feel part way consoled for being able to share a laughably common degree of perplexity.

The best new recent collection from England, Charles Tomlinson's “Skywriting”, is the latest book in the long career of a poet who was first published in America back in the 1950s. Mr Tomlinson is an eloquent poet of place—in this collection he moves through Mexico, Italy, Japan, and his home county of Gloucestershire—whose work combines visual exactitude with an uncommon gracefulness of expression. Mr Tomlinson's friendships with American poets of the 20th century—William Carlos Williams, George Oppen and others—often cause his work to share certain mannerisms that we associate with those earlier poets. Like Mr Williams, for example, his line lengths are often dictated by speech movement—he breaks a line at the point where we would naturally pause for breath.

This and much else about his work remind us that while poets, in order to be in touch with living audiences, must always pay attention to the world that surrounds them, its habits of speaking and being—poetry's richness—also depend in part upon a poet's links with all those poets who have gone before. The poet must learn to speak to and engage with his present-day audience; he must also, if he is to work at his best, learn from his great predecessors. William Shakespeare and Emily Dickinson are always hiding somewhere just behind the fire hydrant.

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About sponsorship

New fiction

Broken music

Mar 25th 2004
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A PRODIGAL Jewish violinist absconds on the day of his post-war London debut. Forty years later, his bereft best friend hears an echo of his talent during an obscure provincial music contest. “The Song of Names” recounts the maestro's disappearance, and the quest that ensues after the shock of musical recognition. In so doing it contrasts the seductions of music and religion, and the consolations they offer to various forms of grief—one of which, it movingly turns out, is the subject of the book's eponymous song.

The Song of Names
By Norman Lebrecht

Anchor Books; 311 pages; $14.
Headline; £7.99

Buy it at
Amazon.com
Amazon.co.uk

Norman Lebrecht's first novel, which won a Whitbread award in Britain in 2002 and is being published for the first time in America this month, is also about friendship: the twisted bonds between artists and their admirers, but also the ordinary sort between boys and adolescents. On the eve of war, David Rapoport, an impossibly precocious nine-year-old Polish refugee, is taken in by Mortimer Simmonds, a London concert-promoter. The interloper's friendship with Simmonds junior, who grows up into the story's not very likeable narrator, nicely evokes the conspiracies and complicities of boyhood, and what happens when one friend grows up more quickly than another. Mr Lebrecht is good on the social aspirations and mixed-up identities of middle-class London Jewry in the middle of the last century, on the complex relationship between religious and secular Jews, as well as on the tragic miscalculations made before the war and the frantic searches after it.

He also offers an insight into the very different subculture in which musical talent is the preferred passport out of obscurity, and is amusing without being (too) patronising on provincial England. The trite post-modernism of the author's cameo appearance at the end of the book is not a good joke, though. The fictional Mr Lebrecht is accurately—though some in the music business might say too charitably—described as “a newspaper columnist notorious for his acerbic exposures of musical skulduggery.” This background shows through in an over-fondness for clever-clever hyphenation, shaky metaphors and heavy alliteration.

There is also some ponderous exposition at the start of the book, as well as some hasty plot leaps and a few characters out of central casting, such as cockneys who are all shady acquaintances and clips-round-the-ear. But when he describes the ecstasies that music can enable, Mr Lebrecht's writing soars. His understated exploration of the affinity between musical and religious instincts—and of the ways both can offer escapes from time, and from history—more than compensates for these minor shortcomings.

The Song of Names.
By Norman Lebrecht.
Anchor Books; 311 pages; $14.
Headline; £7.99

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About sponsorship

New film

Playing it again

Mar 25th 2004
From The Economist print edition

The Coen brothers take "The Ladykillers" round once more

THIS remake of a 1955 classic, "The Ladykillers", is very funny, but Tom Hanks, playing a genteel southern version of the role created by Alec Guinness, is not. This is no fault of Mr Hanks, a resourceful actor who trumps the dentures that Sir Alec deployed in the original with a convulsive laugh—half sneeze, half whinny—which subtly suggests that the Poe-loving, criminal mastermind, Goldthwait Higginson Dorr, PhD, is deranged.

As he would have to be to assemble such a crew of co-conspirators: Gawain MacSam (Marlon Wayans), the foul-mouthed inside man at the riverboat casino that Dorr plans to rob; the General (Tzi Ma), a former Vietcong tunnel builder enlisted to burrow into the casino's land-locked counting room; Lump Hudson (Ryan Hurst), a behemoth too feeble-minded for football; and the self-proclaimed demolitions expert, Garth Pancake (J. K. Simmons), whose pathetic desire to be known as a go-to guy prompts him to describe any challenge as "the easiest thing in the world".

The film-makers have also given their star a formidable straight woman as a foil. Irma P. Hall is wonderful as Marva Munson, the black landlady whose conveniently located root cellar Dorr is using for rehearsals of his "early Renaissance consort". A devout Mississippi churchwoman, Marva divides her time between Dionysian gospel services and conversations with her departed husband, Othar, whose portrait hangs over the hearth of her humble home. Confronted with Dorr and his implausible band of musicmakers, she alternates between glowering suspicion and grinning appreciation of her boarder's eccentricities.

"The Ladykillers" is set in a depopulated backwater where the only going concerns are the floating den of vice and Marva's tiny church—campaign posters for the town's black sheriff (George Wallace) urge voters to re-elect him because he is "too old to go to work". In the scene where Marva tries to introduce the sheriff to her reluctant boarder, the film-makers keep his expressions out of focus while he concludes that Dorr is Marva's imaginary friend, making this a comic high point of the film. Others involve a bulldog suffocated by a gas mask, tender memories of a weekend for "Irritable Bowel Singles" in the Catskills and an endless procession of garbage scows that seem to be there whenever Dorr needs to throw a cadaver off the town's bridge.

This brings us back to the mystery of Mr Hanks's failure to be funny, which is entirely the fault of the painfully arch, multi-syllabic dialogue with which the Coen brothers have saddled him. Lacking in taste, not talent, their verbal malfeasance extends also to the Rabelaisian jeremiads they have written for Mr Wayans, who can usually raise a laugh from this kind of thing in his sleep.

Dorr's fondness for Edgar Allan Poe echoes the Coens' own weaknesses. When Mr Hanks twice recites the same verse from "To Helen", viewers will realise that the divine Edgar was a dreadful versifier, although that did not keep him from being a great poet. Happily, the Coens are gifted visual comedians, and their success is all the more impressive, because to get there they have had to overcome not two tin ears, but four.

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About sponsorship

Sheikh Ahmed Yassin

Mar 25th 2004
From The Economist print edition

Panos

Ahmed Yassin, a Hamas leader, died on March 22nd, aged about 66

“DEATH threats do not frighten us, we are in search of martyrdom,” declared Sheikh Ahmed Yassin a couple of months ago after Israel's deputy defence minister had named him “marked for death”. Before his own “martyrdom” came about on Monday—he was killed by missiles fired from Israeli helicopters as he emerged in his wheelchair from dawn prayers in Gaza City—the frail, half-blind, quadriplegic man of God had inspired many young Palestinians to strap explosives to their bodies and blow up themselves, and as many Israelis as they could muster, in the name of that martyrdom.

Suicide bombs, Sheikh Yassin would have argued, are the weapons of the weak; the Palestinians' counter to Israel's tanks. He never wavered in his belief that the “armed struggle” was the only way to get Israel out of the occupied West Bank and Gaza, he believed killing innocent Israeli civilians was justified by the deaths of innocent Palestinians in Israeli raids, and he would never, probably, have been able to bring himself to recognise the legitimacy of the Israeli state. Hamas is a radical Islamist party that is quite willing to use terror as a means of persuasion. By these standards, the sheikh's was reckoned to be a relatively pragmatic voice.

Israeli leaders, intent on crushing Hamas before Israel's possible withdrawal from Gaza, have suggested that the sheikh, the “mastermind of Palestinian terror”, enjoyed an irreplaceable position in the Islamist organisation. Up to a point, that is true: he did have huge and probably irreplaceable moral, or immoral, authority. But he did not have sole authority. Hamas is multi-faceted, with political factions inside (Gaza and the West Bank) and outside (now in Beirut or Damascus), a faction inside Israel's prisons, and its formidable, partly autonomous, military wing. Sheikh Yassin tended to speak for the consensus.

No religious scholar, his authority derived from a number of sources. History had a lot to do with it. Born in what is now Israel, his youth was spent in a Gaza refugee camp, where he had the accident that paralysed him. After studying in Egypt, he led the Gaza branch of the Muslim Brotherhood, setting up an Islamic Centre that came to control all the Islamic institutions in Gaza, including the university. Then in the late 1980s, when the first *intifada* or uprising had started, he was the driving force behind the founding of the Islamic Resistance Movement—of which Hamas, which also means “zeal”, is the acronym.

His way of life appealed. In blazing contrast to the extravagant and often corrupt leaders of the Palestine Liberation Organisation (PLO), he lived modestly, raising vast sums for his education and welfare charities and, no doubt, for weapons too. The father of 11 children, he endeared himself to his impoverished people by not demanding special privileges for them. And even after the death threats, and an attempt to kill him last year, he lived in his own house with just one security guard.

His triumphant return home from prison in 1997 was followed by a hardly less triumphant tour of Arab capitals. A couple of decades earlier, some Israeli leaders had looked kindly on the Muslim Brotherhood's representatives in the occupied territory as counters to the secular PLO. But the sheikh was packed off twice to Israeli prisons, and might well have been there still, alive on a life sentence, if Israel had not had to free him, after eight years, in an embarrassed deal caused by a botched assassination attempt.

The sheikh also had a brief stint in an Egyptian jail, and has been threatened with house arrest by Yasser Arafat's Palestinian Authority. Mr Arafat, who declared three days of mourning for the sheikh, is under constant pressure from Israel and elsewhere to round up Hamas activists. He couldn't do so, not least because Hamas has as much support as Mr Arafat's own Fatah party: in opinion polls, they each have about a quarter of the votes.

Sheikh Yassin was one of the voices in Hamas that tried to avoid an open split with Mr Arafat. Though he criticised policy and strategy, he never challenged Mr Arafat's leadership of the Palestinian people. He did not want Hamas to be part of an Arafat-led government, but in conversation he sometimes seemed to envisage a future role as a loyal opposition.

An offer they can refuse

Hamas stridently opposed the two-state solution that was the basis of the Oslo accords, and many of its members still speak of the Jewish state in blood-curdling terms. But there has been a sea-change that Sheikh Yassin cautiously encouraged, and sometimes reflected. It amounts roughly to this: if Israel were to get out of the West Bank and Gaza, fulfilling all the conditions Palestinians demand, the armed struggle to get back the rest of the Mandate of Palestine would be suspended—though the right of future generations to resume it would not be denied.

The Israelis, quite reasonably, snort at such a loaded half-offer. Why have a truce that allows the other side to prepare for battle, they ask? Still, it is probably the closest that Hamas, with Sheikh Yassin at its head, would have gone in formally recognising Israel's rights. Without him, the movement is unlikely to go that far: his successors are thought to be more “radical” than he was.

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Overview

Mar 25th 2004
From The Economist print edition

Fears about international terrorism sent share prices lower this week. **Stockmarkets** in New York, London and Frankfurt all hit new lows for the year.

Hints from members of the governing council of the European Central Bank that a cut in interest rates is being considered pushed the **euro** down to $1.22. Government-bond yields in the euro area also fell to a nine-month low. But the stronger currency is starting to bite: the euro area had a current-account deficit of $6.7 billion in January, its first deficit since May 2003. Its trade surplus narrowed to its smallest for a year. The balance of payments figures also showed a big jump in net outflows of foreign direct investment and portfolio investment, to $28.3 billion in January.

New orders for **American** durable goods rose by 2.5% in February, largely as a result of a big increase in orders for aircraft. Excluding transport equipment, new orders fell by 0.3%, the first decline in three months. America's (long delayed) producer-price figures showed that prices jumped by 0.6% in January. But the 12-month increase fell to 3.3%; excluding food and energy, prices rose by 0.9%.

Germany's 12-month rate of consumer-price inflation rose to 1.1% in March from 0.9% in February. This mainly reflected an increase in tobacco taxes at the beginning of the month.

British retail sales surged by 6.5% in the year to February.

Unemployment in the **Netherlands** rose to 6.2% of the labour force in the three months to February, up from 4.6% a year earlier, and its highest rate since 1997.

Canada's 12-month rate of consumer-price inflation fell to 0.7% in February from 1.2% in January. This was partly due to lower oil prices compared with just before the start of the Iraq war a year ago.

Switzerland's producer prices fell by 0.1% in the year to February.

Crude oil prices hit their highest level since October 1990. The price of West Texas Intermediate touched $38.50 a barrel, before slipping back slightly.

The Tokyo stockmarket rose after Standard & Poor's upgraded its outlook for **Japan** from “negative” to “stable”.

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Output, demand and jobs

Mar 25th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.0	Q4	+ 5.5	+ 3.7	+ 3.3	– 0.1	Q3	+ 7.3	Q4	5.9	Feb	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 1.8	+ 2.1	+ 3.4	Oct	+ 0.1	Dec	4.4	Feb	4.2
Belgium	+ 1.2	Q4	+ 2.4	+ 1.8	+ 2.1	+ 1.2	Jan	– 0.7	Dec	12.8	Feb†	11.8
Britain	+ 2.8	Q4	+ 3.8	+ 3.0	+ 2.5	+ 0.4	Jan	+ 6.5	Feb	4.8	Jan††	5.0
Canada	+ 1.6	Q4	+ 3.8	+ 3.0	+ 3.2	+ 1.5	Dec	+ 0.8	Dec	7.4	Feb	7.5
Denmark	+ 0.3	Q4	+ 1.2	+ 2.0	+ 2.3	– 1.5	Jan	+ 1.8	Dec	6.5	Jan	5.5
France	+ 0.6	Q4	+ 1.8	+ 1.9	+ 2.2	+ 0.9	Jan	– 2.2	May	9.6	Jan	9.3
Germany	+ 0.2	Q4	+ 0.9	+ 1.6	+ 1.8	+ 1.9	Jan	– 2.9	Jan	10.3	Feb§	10.5
Italy	+ 0.1	Q4	nil	+ 1.6	+ 2.0	+ 0.3	Jan	– 1.5	Dec	8.4	Oct	8.9
Japan	+ 3.4	Q4	+ 6.4	+ 2.6	+ 1.8	+ 4.9	Jan	+ 1.5	Jan	5.0	Jan	5.5
Netherlands	– 0.5	Q4	+ 1.2	+ 1.0	+ 1.9	+ 0.7	Jan	– 6.3	Dec‡	6.2	Feb**	4.6
Spain	+ 2.7	Q4	+ 3.0	+ 2.9	+ 2.9	– 2.9	Jan	+ 4.5	Jan	11.2	Jan	11.4
Sweden	+ 1.9	Q4	+ 2.2	+ 2.5	+ 2.6	+ 5.2	Jan	+ 3.7	Jan	6.0	Feb†	4.5
Switzerland	nil	Q4	+ 1.8	+ 1.6	+ 1.9	+ 0.4	Q3	+ 3.1	Jan	4.2	Feb†	3.6
United States	+ 4.3	Q4	+ 4.1	+ 4.7	+ 3.5	+ 2.7	Feb	+ 6.0	Jan	5.6	Feb	5.9
Euro area	+ 0.6	Q4	+ 1.2	+ 1.8	+ 2.2	+ 0.6	Jan	+ 1.0	Jan	8.8	Jan	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q4	+ 1.1	na	na	– 1.1	Jan	+ 7.3	Jan	9.0	Feb†	9.0
Greece	+ 5.0	Q4	na	na	na	+ 1.6	Dec	+ 6.4	Nov	na		na
Iceland	+ 4.9	Q4	na	na	na	– 0.3	2002	na		3.4	Dec†	3.0
Ireland	– 0.1	Q3	na	na	na	+ 8.9	Jan	+ 0.3	Jan	4.7	Feb	4.3
Luxembourg	+ 1.3	2002	na	na	na	– 1.2	Dec	+ 5.8	Oct	4.5	Jan	3.8
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 4.1	Q3	+ 6.0	Q4	4.6	Q4	4.9
Norway	+ 0.5	Q4	+ 2.4	na	na	+ 0.5	Jan	+ 4.4	Jan	4.2	Q4	3.7
Portugal	– 0.5	Q4	– 1.0	na	na	– 3.0	Jan	+ 1.1	Jan	6.6	Q4†	6.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.9% in Feb. §EU harmonised rate 9.3% in Feb. **Dec-Feb.

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Prices and wages

Mar 25th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.2	+ 2.6	– 1.1	Q4	+ 1.6	+ 5.9	Q4	+ 3.9
Austria	+ 1.4	Feb	+ 1.7	+ 1.1	+ 1.4	+ 1.8	Feb	+ 2.1	+ 2.2	Jan	+ 2.2
Belgium	+ 1.3	Feb	+ 1.7	+ 1.4	+ 1.6	+ 2.1	Jan	+ 0.1	+ 1.8	Q4	+ 2.2
Britain	+ 1.3	Feb*	+ 1.6	+ 1.5	+ 1.8	+ 1.6	Feb	+ 1.5	+ 4.4	Jan	+ 3.7
Canada	+ 0.7	Feb	+ 4.6	+ 1.5	+ 2.0	– 3.6	Jan	+ 2.4	+ 5.5	Dec	+ 1.6
Denmark	+ 0.9	Feb	+ 2.9	+ 1.5	+ 2.0	– 0.1	Feb	+ 1.7	+ 3.7	Q4	+ 3.9
France	+ 1.8	Feb	+ 2.6	+ 1.8	+ 1.6	+ 0.2	Jan	+ 1.7	+ 2.7	Q4	+ 3.5
Germany	+ 1.1	Mar	+ 1.2	+ 1.0	+ 1.1	+ 0.1	Feb	+ 1.6	+ 1.9	Jan	+ 2.5
Italy	+ 2.3	Feb	+ 2.6	+ 2.3	+ 2.1	+ 0.3	Jan	+ 2.5	+ 2.7	Dec	+ 2.2
Japan	– 0.3	Jan	– 0.4	– 0.2	nil	nil	Feb	– 0.8	+ 1.5	Jan	+ 1.1
Netherlands	+ 1.2	Feb	+ 2.4	+ 1.5	+ 1.4	+ 0.6	Dec	+ 4.2	+ 2.0	Feb	+ 3.3
Spain	+ 2.1	Feb	+ 3.7	+ 2.5	+ 2.5	+ 0.7	Feb	+ 2.9	+ 3.3	Q4	+ 3.9
Sweden	– 0.3	Feb	+ 3.4	+ 1.4	+ 1.9	– 2.3	Feb	+ 0.6	+ 2.7	Dec	+ 4.0
Switzerland	+ 0.1	Feb	+ 1.0	+ 0.5	+ 0.9	– 0.1	Feb	nil	+ 1.8	2002	+ 2.5
United States	+ 1.7	Feb	+ 3.0	+ 1.5	+ 1.8	+ 3.3	Jan	+ 2.5	+ 1.6	Feb	+ 3.4
Euro area	+ 1.6	Feb	+ 2.4	+ 1.7	+ 1.6	+ 0.3	Jan	+ 2.3	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.1	Feb	+ 1.9	na	na	– 1.8	Feb	+ 2.3	+ 3.7	Q4	+ 4.1
Greece	+ 2.5	Feb	+ 4.3	na	na	+ 2.3	Jan	+ 0.5	na		na
Iceland	+ 1.8	Mar	+ 2.2	na	na	+ 1.4	Feb	+ 3.5	+ 3.3	Jan	+ 5.5
Ireland	+ 1.7	Feb	+ 5.1	na	na	– 8.2	Jan	– 5.3	+ 4.7	Q3	+ 6.0
Luxembourg	+ 2.0	Feb	+ 2.5	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.6	Q4	+ 2.7	na	na	– 0.1	Q4	– 1.4	+ 2.3	Q4	+ 2.1
Norway	– 1.7	Feb	+ 4.8	na	na	– 1.3	Feb	+11.9	+ 3.9	Q4	+ 5.2
Portugal	+ 2.1	Feb	+ 4.2	na	na	– 0.5	Feb	+ 3.0	– 2.6	Dec	+ 0.4

*New series. RPI inflation rate in February: 2.5%.

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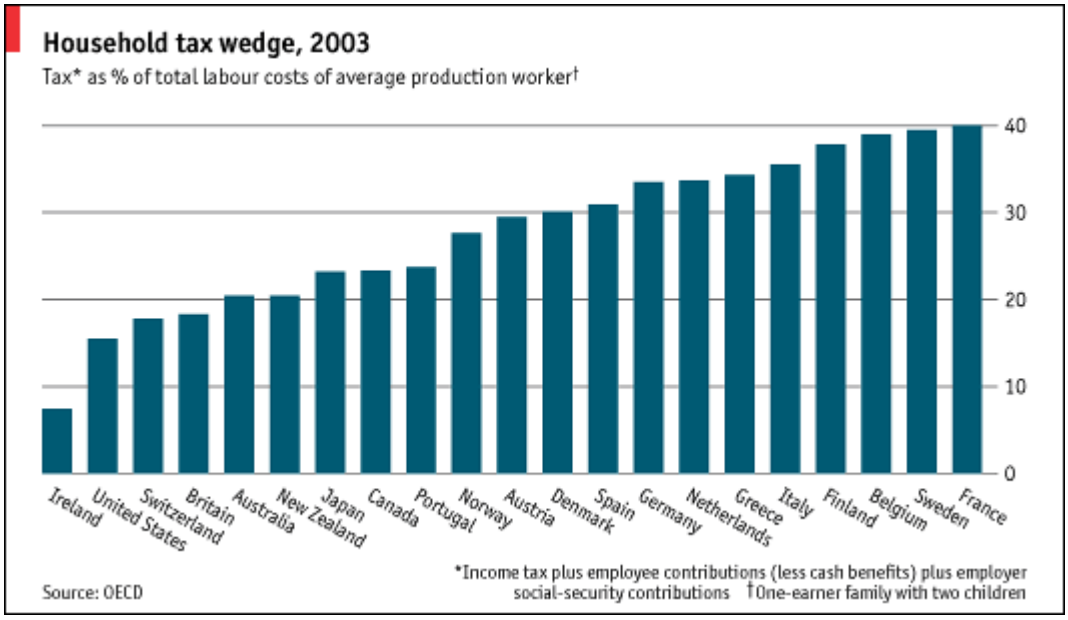
Household tax wedge, 2003

Mar 25th 2004
From The Economist print edition



The tax wedge is the difference between workers' take-home pay and what it costs to employ them. This has fallen for blue-collar workers with a family in most developed countries since the mid 1990s. The biggest reduction has been in Ireland; there have also been sharp falls in America, Italy and Britain. The tax wedge has remained roughly unchanged in France and Canada. It has risen a bit in Japan and Norway.

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Money and interest rates

Mar 25th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Mar 24th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 9.1	+13.8	Jan	5.49	4.79	4.94	5.30	5.45	6.23
Britain	+ 6.8	+ 8.1	Feb	4.25	3.63	4.33	4.65	4.45	5.53
Canada	+10.3	+ 9.4	Feb	2.00	3.15	2.21	4.15	5.20	5.69
Denmark	+ 6.2	+ 6.6	Feb	2.12	2.68	2.21	3.97	4.41	5.12
Japan	+ 4.3	+ 1.7	Feb	0.03	0.02	0.11	1.30	0.71	1.44
Sweden	+ 3.3	+ 2.2	Jan	2.12	3.39	2.62	4.12	4.69	2.61
Switzerland	+24.0	+ 7.8	Feb	0.25	0.32	0.71‡	2.32	2.54	2.19
United States	+ 6.4	+ 3.9	Feb	1.02	1.18	1.46	3.71	3.94	5.42
Euro area†	+11.2	+ 6.4	Jan	2.02	2.53	2.08	3.81	4.15	3.64

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. New Series. Benchmarks: US 30-year 4.66%, Japan No. 258 1.31%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Mar 25th 2004
From The Economist print edition

1995=100

	Mar 16th	Mar 23rd*	% change on one month	% change on one year
Dollar index				
All items	98.0	100.2	+ 3.7	+32.2
Food	96.7	100.5	+ 7.9	+31.5
Industrials				
All	99.7	99.8	– 1.5	+33.2
Nfa†	94.4	94.9	– 2.4	+21.2
Metals	104.2	104.0	– 0.8	+44.3
Sterling index				
All items	85.0	85.6	+ 5.9	+12.5
Euro index				
All items	104.4	107.1	+ 6.8	+14.9
Yen index				
All items	113.6	113.8	+ 2.3	+17.7
Gold				
$ per oz	403.10	416.25	+ 3.2	+26.2
West Texas Intermediate				
$ per barrel	37.43	37.40	+ 8.2	+33.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

Mar 25th 2004
From The Economist print edition

Market indices

	Mar 24th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,385.1	3,432.3	3,274.9	– 1.4	– 1.6	+ 2.4	+ 1.6
Austria (ATX)	1,836.8	1,863.1	1,568.9	+ 0.8	– 1.4	+18.9	+15.1
Belgium (Bel 20)	2,321.6	2,517.3	2,244.2	– 3.4	–36.9	+ 3.4	+ 0.2
Britain (FTSE 100)	4,309.4	4,559.1	4,309.4	– 3.3	–37.8	– 3.7	– 1.3
Canada (Toronto Composite)	8,420.9	8,874.7	8,220.9	– 2.1	–26.1	+ 2.4	– 1.3
Denmark (KBX)	229.4	241.3	219.0	– 2.2	–24.0	+ 7.4	+ 4.0
France (SBF 250)	2,416.5	2,594.4	2,411.5	– 3.5	–45.0	+ 0.2	– 2.9
(CAC 40)	3,518.5	3,785.4	3,518.5	– 3.8	–49.2	– 1.1	– 4.2
Germany (DAX)	3,726.1	4,151.8	3,726.1	– 4.4	–53.8	– 6.0	– 9.0
Italy (BCI)	1,239.5	1,325.5	1,239.5	– 2.2	–43.2	– 1.4	– 4.5
Japan (Nikkei 225)	11,365.0	11,537.3	10,365.4	– 0.6	–70.8	+ 6.4	+ 7.4
(Topix)	1,146.0	1,146.0	1,022.6	+ 0.4	–60.3	+ 9.8	+10.7
Netherlands (AEX)	326.3	364.8	326.3	– 5.4	–53.5	– 3.4	– 6.4
Spain (Madrid SE)	814.1	875.0	808.3	– 2.3	–29.0	+ 0.8	– 2.4
Sweden (Affarsvarlden Gen)	197.0	218.1	188.5	– 3.5	–50.8	+ 4.6	– 1.0
Switzerland (Swiss Market)	5,504.0	5,934.4	5,469.0	– 3.3	–34.6	+ 0.3	– 2.4
United States (DJIA)	10,048.2	10,737.7	10,048.2	– 2.4	–14.3	– 3.9	– 3.9
(S&P 500)	1,091.3	1,157.8	1,091.3	– 2.9	–28.6	– 1.9	– 1.9
(NASDAQ Comp)	1,909.5	2,153.8	1,901.8	– 3.4	–62.2	– 4.7	– 4.7
Europe (FTSE Eurotop 300)*	959.4	1,026.2	957.9	– 3.1	–43.7	+ 0.2	– 3.0
Euro area (FTSE Ebloc 100)*	815.4	888.3	815.4	– 3.9	–47.4	– 2.0	– 5.0
World (MSCI)†	1,025.9	1,085.8	1,025.9	– 2.3	–29.2	– 1.0	– 1.0
World bond market (Citigroup)‡	611.7	619.5	595.1	+ 0.8	– 1.3	+ 1.3	+ 1.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Mar 25th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2004	Current account The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Mar 24th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Mar 24th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 15.9	Jan	− 30.0	Q4	− 5.1	− 4.5	87.5	77.2	1.34	1.67	2.45	1.63	1.26	0.5
Austria	− 1.2	Dec	− 1.5	Jan	− 0.2	− 0.3	103.4§	101.6	0.82	0.94	1.50	–	0.77	-1.2
Belgium	+ 19.3	Jan	+ 9.9	Sep	+ 4.1	+ 4.2	103.8§	101.4	0.82	0.94	1.50	–	0.77	nil
Britain	− 79.8	Jan	− 36.1	Q3	− 2.4	− 2.3	105.7	101.0	0.54	0.64	–	0.67	0.51	-2.9
Canada	+ 43.5	Jan	+ 18.5	Q4	+ 1.4	+ 1.0	85.9	80.1	1.34	1.47	2.46	1.64	1.26	0.7
Denmark	+ 9.6	Jan	+ 6.6	Jan	+ 2.6	+ 2.6	106.3	106.2	6.10	6.96	11.2	7.45	5.74	1.0
France	+ 2.5	Jan	+ 16.7	Jan	+ 1.2	+ 1.2	107.4§	104.5	0.82	0.94	1.50	–	0.77	-3.7
Germany	+152.8	Jan	+ 57.1	Jan	+ 2.5	+ 2.4	105.2§	101.7	0.82	0.94	1.50	–	0.77	-3.7
Italy	+ 1.2	Jan	− 21.6	Jan	− 1.0	− 0.8	76.6§	74.5	0.82	0.94	1.50	–	0.77	-2.9
Japan	+110.2	Jan	+142.3	Jan	+ 3.0	+ 2.9	138.4	130.4	106	120	195	130	–	-6.8
Netherlands	+ 31.9	Jan	+ 14.4	Q4	+ 3.2	+ 3.4	103.4§	100.6	0.82	0.94	1.50	–	0.77	-2.5
Spain	− 52.5	Dec	− 25.0	Dec	− 2.5	− 2.6	77.7§	75.9	0.82	0.94	1.50	–	0.77	0.2
Sweden	+ 19.2	Jan	+ 18.9	Q4	+ 4.8	+ 4.5	79.8	78.7	7.60	8.64	13.9	9.28	7.15	0.5
Switzerland	+ 7.3	Feb	+ 29.4	Q3	+10.6	+10.6	111.4	115.7	1.27	1.38	2.33	1.55	1.20	na
United States	−552.7	Jan	−540.9	Q4	− 5.1	− 4.9	96.1	108.5	–	–	1.84	1.22	0.94	-5.1
Euro area	+ 87.1	Jan	+ 32.4	Jan	+ 0.7	+ 0.6	90.0	86.5	0.82	0.94	1.50	–	0.77	-2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.4	Jan	+ 9.6	Jan	na	na	82.7§	80.3	0.82	0.94	1.51	–	0.77	1.9
Greece	− 25.9	Jan	− 11.0	Jan	na	na	59.9§	58.7	0.82	0.94	1.51	–	0.77	-1.6
Iceland	− 0.3	Jan	− 0.6	Q4	na	na	93.5**	92.9	71.9	78.9	132	87.9	67.7	0.2
Ireland	+ 39.2	Dec	− 2.1	Q3	na	na	95.8§	91.6	0.82	0.94	1.51	–	0.77	-1.3
Luxembourg	− 3.4	Dec	+ 2.5	Q4	na	na	103.8§	101.4	0.82	0.94	1.51	–	0.77	-1.8
New Zealand	− 2.1	Feb	− 3.3	Q3	na	na	102.4	96.6	1.53	1.83	2.81	1.87	1.44	2.2
Norway	+ 27.8	Feb	+ 30.1	Jan	na	na	95.6	101.1	6.89	7.35	12.6	8.42	6.48	9.7
Portugal	− 13.7	Dec	− 8.0	Jan	na	na	93.4**	91.3	0.82	0.94	1.51	–	0.77	-3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD forecast. **IMF, November average.

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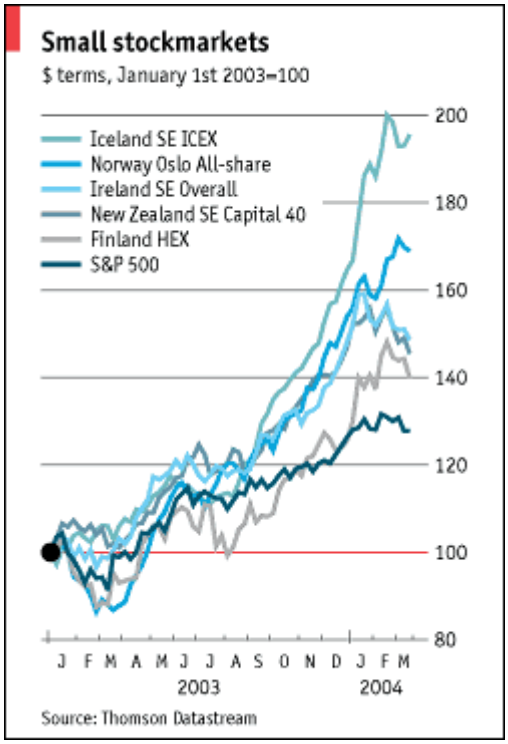
About sponsorship

Small stockmarkets

Mar 25th 2004
From The Economist print edition



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Overview

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South Korea's economy continues to rebound. GDP rose by 2.7% in the fourth quarter, the fastest pace in nearly two years, thanks partly to booming exports. Consumer prices in **Hong Kong** fell in February, the first month-on-month decline in six months. On an annual basis, the CPI fell for the 64th straight month.

Industrial output in **Israel** rose by 3.0% in the year to January.

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Office occupancy costs

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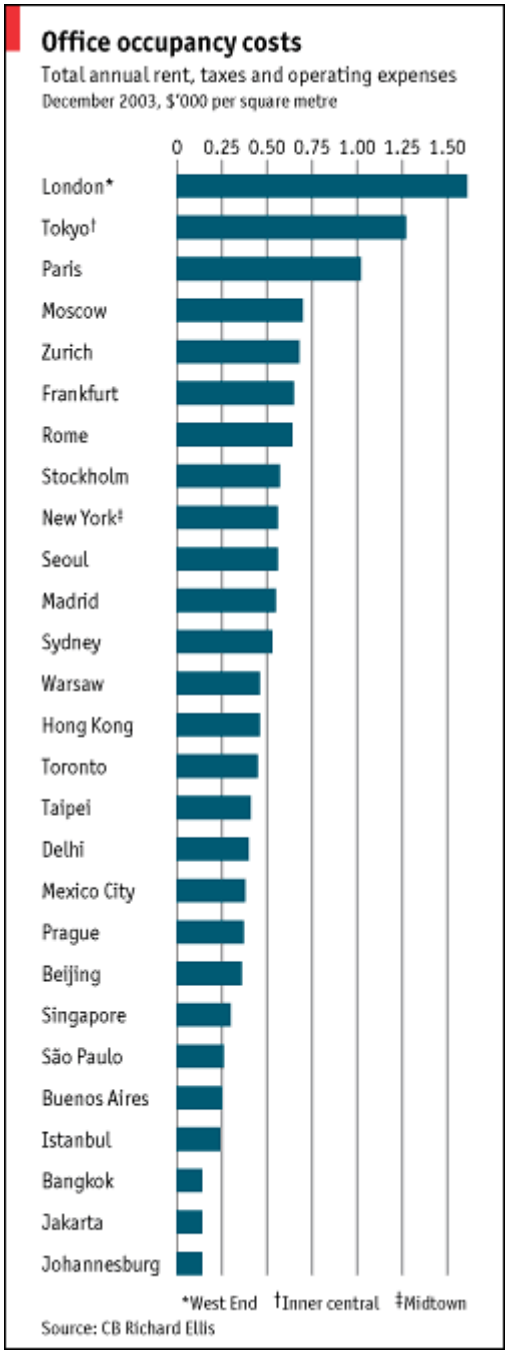
Rents have been falling in many big cities as the global slowdown has constrained demand and additional supply has come on to the market. The prospects for landlords remain weak in some European cities like Frankfurt. However, vacancy rates have edged downward in many American cities, which should provide support for rents. And there are now signs of recovery in Asian property hubs such as Tokyo and Singapore.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+23.2	Feb	+ 2.1	Feb	+18.1	Feb	+35.4	2002	415.7	Jan
Hong Kong	+ 5.0	Q4	– 6.1	Q4	– 2.0	Feb	– 8.7	Jan	+17.3	Q4	123.5	Feb
India	+ 8.4	Q3	+ 7.4	Jan	+ 4.3	Jan	–15.6	Jan	+ 2.3	Q3	104.1	Feb
Indonesia	+ 4.3	Q4	+ 4.7	Jul	+ 4.6	Feb	+28.5	Jan	+ 7.8	Q3	34.7	Jan
Malaysia	+ 6.4	Q4	+16.7	Jan	+ 0.9	Feb	+19.5	Jan	+11.9	Q3	43.5	Jan
Philippines	+ 4.5	Q4	– 0.2	Jan	+ 3.4	Feb	– 1.9	Jan	+ 3.3	Dec	12.7	Feb
Singapore	+ 4.9	Q4	+ 5.8	Jan	+ 1.6	Feb	+15.8	Feb	+28.2	Q4	101.2	Feb
South Korea	+ 3.9	Q4	+ 4.8	Jan	+ 3.3	Feb	+21.1	Feb	+15.2	Jan	162.1	Feb
Taiwan	+ 5.2	Q4	+28.0	Feb	+ 0.6	Feb	+16.3	Feb	+28.6	Q4	224.8	Feb
Thailand	+ 7.8	Q4	+11.6	Jan	+ 2.2	Feb	+ 4.2	Jan	+ 8.1	Jan	42.2	Jan
Argentina	+ 9.8	Q3	+ 8.8	Jan	+ 2.3	Feb	+14.8	Jan	+ 8.9	Q3	15.0	Feb
Brazil	– 0.1	Q4	+ 1.7	Jan	+ 6.7	Feb	+26.1	Feb	+ 4.6	Jan	53.3	Jan
Chile	+ 3.3	Q4	+ 1.8	Jan	nil	Feb	+ 3.5	Feb	– 0.6	Q4	16.1	Feb
Colombia	+ 4.3	Q4	+ 3.6	Dec	+ 6.3	Feb	nil	Dec	– 1.6	Q3	11.1	Jan
Mexico	+ 2.0	Q4	+ 0.8	Jan	+ 4.5	Feb	– 6.1	Feb	– 9.2	Q4	59.2	Feb
Peru	+ 3.0	Jan	+ 2.9	Jan	+ 3.4	Feb	+ 0.9	Jan	– 1.1	Q4	9.8	Jan
Venezuela	+ 9.0	Q4	+177.8	Dec	+21.9	Feb	+15.0	Q4	+ 9.6	Q4	16.0	Dec
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Jul	+ 3.3	Q3	13.7	Jan
Israel	– 0.6	Q4	+ 3.0	Jan	– 2.5	Feb	– 6.5	Feb	– 0.2	Q4	26.2	Feb
South Africa	+ 1.5	Q4	– 1.4	Dec	+ 0.7	Feb	+ 1.9	Jan	– 1.5	Q4	6.4	Jan
Turkey	+ 4.8	Q3	+ 6.5	Jan	+14.3	Feb	–21.9	Dec	– 6.7	Dec	33.7	Jan
Czech Republic	+ 3.1	Q4	+ 3.8	Jan	+ 2.3	Feb	– 2.3	Feb	– 5.7	Q4	26.8	Feb
Hungary	+ 3.5	Q4	+ 9.9	Jan	+ 7.1	Feb	– 3.8	Jan	– 5.2	Jan	13.1	Feb
Poland	+ 3.9	Q3	+14.3	Jan	+ 1.6	Feb	– 9.7	Dec	– 3.9	Jan	36.3	Feb
Russia	+ 5.7	Q3	+ 8.7	Feb	+10.8	Feb	+60.7	Jan	+39.1	Q4	82.6	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 7.6	Jan	+ 0.4	Feb	– 2.0	Jan	– 1.6	Q4	1.2	Jan
Latvia	+ 7.4	Q4	+ 5.6	Jan	+ 4.3	Feb	– 2.0	Jan	– 1.0	Jan	1.4	Jan
Lithuania	+10.6	Q4	na		– 1.3	Feb	– 2.7	Jan	– 1.1	Q3	3.3	Jan
Slovakia	+ 4.7	Q4	+ 1.3	Jan	+ 8.5	Feb	– 0.6	Jan	– 0.5	Nov	11.8	Jan
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 3.6	Feb	– 0.8	Jan‡	nil	Jan	8.5	Dec
Pakistan	+ 5.1	2003†	+ 3.5	Nov	+ 4.3	Feb	– 1.5	Feb	+ 3.6	Q4†	10.3	Jan
Saudi Arabia	+ 1.0	2002	na		+ 0.4	Nov	+41.8	2002	+11.9	2002	23.9	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Mar 25th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 24th		Dec 31st 2003	
	Mar 24th	year ago	Mar 24th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.2	na	1,824.7	– 0.3	+ 16.3	+ 16.3
Hong Kong	7.80	7.80	14.3	0.14	12,678.1	– 2.3	+ 0.8	+ 0.4
India	44.7	47.6	82.1	4.41	5,395.3	– 2.5	– 7.6	– 5.7
Indonesia	8,575	8,915	15,739	7.72	738.8	+ 1.1	+ 6.8	+ 4.9
Malaysia	3.80	3.80	6.97	3.03	895.3	+ 0.6	+ 12.8	+ 12.8
Philippines	56.3	53.7	103.4	9.25	1,389.9	– 2.9	– 3.6	– 5.0
Singapore	1.69	1.77	3.10	0.69	1,835.3	+ 0.1	+ 4.0	+ 4.6
South Korea	1,155	1,244	2,119	3.88	861.7	– 1.2	+ 6.3	+ 9.7
Taiwan	33.1	34.7	60.8	1.05	6,213.6	– 5.5	+ 5.5	+ 8.1
Thailand	39.5	42.9	72.5	1.30	677.6	+ 0.5	– 12.2	– 11.9
Argentina	2.88	2.90	5.28	2.94	1,239.8	– 1.2	+ 15.7	+ 17.9
Brazil	2.93	3.39	5.38	16.05	20,984.7	– 4.2	– 5.6	– 7.1
Chile	614	726	1,128	1.68	7,380.5	– 2.7	+ 0.6	– 3.0
Colombia	2,665	2,960	4,892	7.71	3,168.5	+ 1.9	+ 35.8	+ 41.6
Mexico	11.0	10.8	20.2	7.56	10,161.7	+ 2.0	+ 15.5	+ 18.2
Peru	3.46	3.48	6.35	2.44	2,920.9	+ 0.8	+ 20.0	+ 20.1
Venezuela	3,269§	1,598	5,999	na	26,543.5	– 4.3	+ 19.5	+ 4.3
Egypt	6.21	5.76	11.39	7.81	13,763.0	+ 2.7	+ 18.3	+ 17.5
Israel	4.51	4.69	8.28	1.15	558.4	– 4.1	+ 4.5	+ 1.9
South Africa	6.57	7.90	12.1	8.15	10,545.0	– 2.0	+ 1.5	+ 3.2
Turkey	1,322,500	1,715,000	2,427,449	20.00	20,347.8	+ 5.5	+ 9.2	+ 16.1
Czech Republic	26.8	29.8	49.1	2.05	813.2	+ 2.1	+ 23.4	+ 18.3
Hungary	206	231	377	11.87	10,644.6	+ 0.1	+ 13.5	+ 14.5
Poland	3.85	4.07	7.06	5.46	23,353.9	– 1.3	+ 12.2	+ 9.2
Russia	28.5	31.4	52.3	14.00	705.2‡	+ 0.9	+ 21.1	+ 24.3
EMF (MSCI)*	1.00	1.00	1.84	na	465.2	– 1.0	+ 5.1	+ 5.1
EMBI+†	1.00	1.00	1.84	na	304.1	+ 0.1	+ 3.1	+ 3.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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